



# Iran Sanctions

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## Summary

The international coalition that is imposing progressively strict economic sanctions on Iran is broadening and deepening, with increasingly significant effect on Iran's economy. However, the objective of sanctions—to compel Iran to verifiably confine its nuclear program to purely peaceful uses—has not been achieved to date. Yet, U.S. officials believe that Iran, which sees newly-imposed multilateral sanctions against its oil exports as a severe threat, will return to the nuclear bargaining table with greater seriousness and intent toward peaceful resolution. Many judge that Iran needs an easing of sanctions because the energy sector provides nearly 70% of Iran's government revenues. Iran's worsening economic situation is caused by:

- A decision by the European Union on January 23, 2012, to wind down purchases of Iranian crude oil by July 1, 2012. EU countries buy about 20% of Iran's oil exports. This action took into consideration an International Atomic Energy Agency (IAEA) report on Iran's possible efforts to design a nuclear explosive device, and diplomatic and financial rifts with Britain, which caused the storming of the British Embassy in Tehran on November 30, 2011.
- Decisions by other Iranian oil purchasers, particularly Japan and South Korea, to reduce purchases of Iranian oil. Those decisions are intended to comply with a provision of the FY2012 National Defense Authorization Act (P.L. 112-81, signed December 31, 2011) that prevents the opening of U.S. accounts by foreign banks that conduct transactions with Iran's Central Bank—unless the parent country reduces substantially its purchases of Iranian oil.
- The willingness of other oil producers with spare capacity, particularly Saudi Arabia, a strategic rival, to sell additional oil to countries cutting Iranian oil buys.
- The possibility that, as a result of this confluence of measures by its major customers, Iran's oil sales might fall by as much as 40% (1 million barrels per day reduction out of 2.5 million barrels per day of sales). Iran is widely assessed as unable to economically sustain that level of lost oil sales.

The signs of economic pressure on Iran are multiplying. The value of Iran's rial has dropped precipitously since December 2011. Iranian leaders have admitted that Iran is virtually cut off from the international banking system and is increasingly trading through barter arrangements rather than hard currency exchange. The pullout from Iran by major international firms have slowed Iran's efforts to modernize its energy sector and other sectors, rendering Iran unable to increase its oil production above 4.1 million barrels per day. Still, Iran has small amounts of natural gas exports; it had none at all before Iran opened its fields to foreign investment in 1996. Iran also has used various innovations to work around some of the growing international restrictions. The United States and its partners are attempting to implement the 2012 sanctions so as not to raise world oil prices any further.

Despite the imposition of what many now consider to be “crippling” sanctions, some in Congress believe that economic and diplomatic pressure on Iran needs to increase further and faster. In the 112<sup>th</sup> Congress, legislation, such as S. 1048, H.R. 1905, and S. 2101, would enhance both the economic sanctions and human rights-related provisions of a major 2010 Iran sanctions law (P.L. 111-195) and other laws. However, some believe that further U.S. sanctions could risk fracturing the international coalition. For a broader analysis of policy on Iran, see CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

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## Overview

The Obama Administration's policy approach toward Iran has contrasted with the Bush Administration's by attempting to couple the imposition of sanctions to U.S. negotiations with Iran on the nuclear issue. However, with negotiations yielding no firm Iranian agreement to compromise, since early 2010 the Administration and Congress have focused on achieving adoption of and implementing additional U.S., U.N., and allied country sanctions whose cumulative effect could compel Iran to accept a nuclear bargain.

U.N. and worldwide bilateral sanctions on Iran (the latest of which are imposed by Resolution 1929, adopted June 9, 2010) are a relatively recent (post-2006) development. U.S. sanctions, on the other hand, have been a major feature of U.S. Iran policy since Iran's 1979 Islamic revolution. Many of the U.S. sanctions overlap each other as well as the U.N. sanctions now in place, and national measures undertaken by European and some Asian countries. Some U.S. sanctions, particularly the 1996 Iran Sanctions Act (ISA), caused differences of opinion between the United States and its European allies because it mandates U.S. imposition of sanctions on foreign firms. Successive Administrations have sought to ensure that U.S. sanctions do not hamper cooperation with key international partners whose support is needed to isolate Iran.

## Sanctions Targeting Foreign Participation in Iran's Energy Sector: The Iran Sanctions Act (ISA), CISADA, and a November 2011 Executive Order

The Iran Sanctions Act (ISA) is one of many U.S. sanctions in place against Iran. It has attracted substantial attention because it is an "extra-territorial sanction"—it authorizes U.S. penalties against foreign firms, many of which are incorporated in countries that are U.S. allies. When it was first enacted in 1996, Congress and the Clinton Administration saw ISA as a potential mechanism to compel U.S. allies to join the United States in enacting trade sanctions against Iran. American firms are separately restricted from trading with or investing in Iran under separate U.S. executive orders, as discussed below. Its application has been further expanded by CISADA (P.L. 111-195) as well as by Executive Order 13590, issued November 21, 2011.

Originally called the Iran and Libya Sanctions Act (ILSA), ISA was enacted to try to deny Iran the resources to further its nuclear program and to support terrorist organizations such as Hizbollah, Hamas, and Palestine Islamic Jihad. Iran's petroleum sector generates about 20% of Iran's GDP (which is about \$870 billion), 80% of its exports, and 60% to 70% of its government revenue. Iran's oil sector is as old as the petroleum industry itself (early 20<sup>th</sup> century), and Iran's onshore oil fields and oil industry infrastructure are far past peak production and in need of substantial investment. Its large natural gas resources (940 trillion cubic feet, exceeded only by Russia) were virtually undeveloped when ISA was first enacted. Iran has 136.3 billion barrels of proven oil reserves, the third-largest after Saudi Arabia and Canada. With the exception of relatively small swap and barter arrangements with neighboring countries, virtually all of Iran's oil exports flow through the Strait of Hormuz, which carries about one-third of all internationally traded oil exported by Iran and other countries on the Persian Gulf.

## Legislative History and Provisions

The opportunity for the United States to try to harm Iran's energy sector came in November 1995, when Iran opened the sector to foreign investment. To accommodate its insistence on retaining control of its national resources, Iran used a "buy-back" investment program in which foreign firms gradually recoup their investments as oil and gas is discovered and then produced. With input from the Administration, on September 8, 1995, Senator Alfonse D'Amato introduced the "Iran Foreign Oil Sanctions Act" to sanction foreign firms' exports to Iran of energy technology. A revised version instead sanctioning *investment* in Iran's energy sector passed the Senate on December 18, 1995 (voice vote). On December 20, 1995, the Senate passed a version applying the provisions to Libya, which was refusing to yield for trial the two intelligence agents suspected in the December 21, 1988, bombing of Pan Am 103. The House passed H.R. 3107, on June 19, 1996 (415-0), and then concurred on a Senate version adopted on July 16, 1996 (unanimous consent). The Iran and Libya Sanctions Act was signed on August 5, 1996 (P.L. 104-172).

### Key "Triggers"

ISA consists of a number of "triggers"—transactions with Iran that would be considered violations of ISA and could cause a firm or entity to be sanctioned under ISA's provisions. When triggered, ISA provides a number of different sanctions that the President could impose that would harm a foreign firm's business opportunities in the United States. ISA does not, and probably could not practically, compel any foreign government to act against one of its firms.

### Original Triggers

ISA primarily targets foreign firms, because American firms are already prohibited from investing in Iran under the 1995 trade and investment ban discussed below. The original version of ISA requires the President to sanction companies (entities, persons) that make an "investment"<sup>1</sup> of more than \$20 million<sup>2</sup> in one year in Iran's energy sector.<sup>3</sup> The definition of "investment" in ISA (§14 (9)) includes not only equity and royalty arrangements (including additions to existing investment, as added by P.L. 107-24) but any contract that includes "responsibility for the development of petroleum resources" of Iran.

CISADA did not alter this trigger but it did amend the definition of investment to include pipelines to or through Iran and contracts to lead the construction, upgrading, or expansions of energy projects. CISADA also eliminated the wording in the original version of ISA that

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<sup>1</sup> As amended by CISADA (P.L. 111-195), these definitions include pipelines to or through Iran, as well as contracts to lead the construction, upgrading, or expansions of energy projects. CISADA also changes the definition of investment to eliminate the exemption from sanctions for sales of energy-related equipment to Iran, if such sales are structured as investments or ongoing profit-earning ventures.

<sup>2</sup> Under §4(d) of the original act, for Iran, the threshold dropped to \$20 million, from \$40 million, one year after enactment, when U.S. allies did not join a multilateral sanctions regime against Iran. However, P.L. 111-195 explicit sets the threshold investment level at \$20 million. For Libya, the threshold was \$40 million, and sanctionable activity included export to Libya of technology banned by Pan Am 103-related Security Council Resolutions 748 (March 31, 1992) and 883 (November 11, 1993).

<sup>3</sup> The definition of energy sector had included oil and natural gas, but now, as a consequence of the enactment of P.L. 111-195, also includes liquefied natural gas (LNG), oil or LNG tankers, and products to make or transport pipelines that transport oil or LNG.

specifically exempts from sanctions sales of energy-related equipment to Iran. However, to be sanctionable, such sales would need to be structured as investments or ongoing profit-earning ventures rather than simple sales transactions.

The Iran Freedom Support Act (P.L. 109-293) amended ISA to add a trigger: that sanctions should be imposed on entities that sell to Iran weapons of mass destruction (WMD) technology or “destabilizing numbers and types” of advanced conventional weapons.

### ***CISADA: Amended ISA by Adding a Trigger—Sales to Iran of Gasoline and Related Equipment and Services***

ISA, as initially constituted, did not address Iran’s gasoline dependency because sales to Iran of gasoline were not sanctionable under ISA. Nor did the original version sanction the selling to Iran of equipment with which it can build or expand its refineries using its own construction capabilities.<sup>4</sup> Nor did ISA clearly apply to Iranian investments in oil refineries in several other countries, such as Iranian investment to help build five oil refineries in Asia (China, Indonesia, Malaysia, and Singapore) and in Syria, reported in June 2007, would have constituted “investment” under ISA.

Many in Congress argued that ISA should be applied to gasoline sales to Iran because Iran is dependent on gasoline imports to meet about 40% of its gasoline needs and there were a limited group of major gasoline suppliers to Iran. Others, however, believed the Iranian government would have numerous ways to circumvent its effects, including rationing, reducing gasoline subsidies in an effort to reduce gasoline consumption; or offering premium prices to obscure gasoline suppliers. The effect on Iran’s supplies are discussed later in this report.

*Main CISADA Provision on Gasoline.* CISADA’s main provision was to amend ISA by making sanctionable:

- Sales to Iran of over \$1 million worth (or \$5 million in a one year period) of gasoline and related aviation and other fuels. (Fuel oil, a petroleum by-product which is reportedly being sold to Iran by exporters in the Kurdish region of Iraq, is not included in the definition of refined petroleum.)
- Sales to Iran of equipment or services which would help Iran make or import gasoline. Such sales would include equipment and services that Iran can use to construct or maintain its oil refineries.

In terms of legislative history, the ideas that became the core of CISADA were introduced as legislation in the 110<sup>th</sup> and 111<sup>th</sup> Congresses. In the 110<sup>th</sup> Congress, H.R. 2880 would have made sales to Iran of refined petroleum resources a violation of ISA. It should be noted that CISADA had many provisions beyond amending ISA, and **Table 5** contains a summary of all its provisions.

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<sup>4</sup> Taking responsibility for constructing oil refineries or petrochemical plants in Iran did constitute sanctionable projects under the original version of ISA because ISA’s definition of investment includes “responsibility for the development of petroleum resources located in Iran.” **Table 4** provides some information on openly announced contracts to upgrade or refurbish Iranian oil refineries.



In the 111<sup>th</sup> Congress, a House bill (Iran Refined Petroleum Sanctions Act) containing the provisions above sanctioning gasoline related sales to Iran, H.R. 2194, was passed by the House on December 15, 2009, by a vote of 412-12, with four others voting “present” and six others not voting. A bill in the Senate, the “Dodd-Shelby Comprehensive Iran Sanctions, Accountability, and Divestment Act,” (S. 2799), was reported to the full Senate by the Senate Banking Committee on November 19, 2009, and passed the Senate, by voice vote, on January 28, 2010. It was adopted by the Senate under unanimous consent as a substitute amendment to H.R. 2194 on March 11, 2010, setting up conference action on the two versions of H.R. 2194. The Senate bill added to the House bill provisions affecting U.S.-Iran trade and other issues. As shown in **Table 2**, the final version contained many of the extensive provisions of the Senate version, and some of the efforts to compel sanctions represented in the House version. The President signed the final version on July 1, 2010 (P.L. 111-195).

*Pre-CISADA Efforts to Sanction Gasoline Exports to Iran.* Earlier in the 111<sup>th</sup> Congress, a few initiatives to sanction sales of gasoline to Iran were adopted prior to CSIDA. Using U.S. funds to fill the Strategic Petroleum Reserve with products from firms that sell over \$1 million worth of gasoline to Iran is prevented by the FY2010 Energy and Water Appropriation (H.R. 3183, P.L. 111-85, signed October 28, 2009). A provision of the FY2010 consolidated appropriation (P.L. 111-117) would deny Ex-Im Bank credits to any firm that sells gasoline to Iran, provides equipment to Iran that it can use to expand its oil refinery capabilities, or performs gasoline production projects in Iran. These initiatives did deter some gasoline sales to Iran, including a decision in December 2008 by Reliance Industries Ltd. of India to at least temporarily cease new sales of refined gasoline to Iran (December 31, 2008). That decision came after several Members of Congress urged the Ex-Im Bank of the United States to suspend assistance to Reliance, on the grounds that it was assisting Iran’s economy with the gas sales. The Ex-Im Bank, in August 2008, had extended a total of \$900 million in financing guarantees to Reliance to help it expand.

### ***Triggers Added by Executive Order 13590 (November 21, 2011): Application of ISA to Sales of Energy Sector (Including Petrochemical) Equipment and Services***

In the wake of a November 8, 2011, IAEA report indicating Iran might have worked on nuclear explosive technology, the Administration issued an Executive Order, under the International Emergency Economic Powers Act (IEEPA), expanding the authorities of the Iran Sanctions Act to direct the Secretary of State to impose at least one (1) of the available ISA sanctions on foreign firms that

- Provide to Iran \$1 million or more (or \$5 million in a one year period) worth of goods or services that Iran could use to maintain or enhance its oil and gas sector. This would appear to make sanctionable the activity of global oil services firms in Iran, or the provision to Iran of gear typically used in the oil industry such as drills, pumps, vacuums, oil rigs, and the like.
- Provide to Iran \$250,000 (or \$1 million in a one year period) worth of goods or services that Iran could use to maintain or expand its production of petrochemical products.
- Because these provisions were issued by Executive Order, the other legislative provisions of ISA, such as the time frame to begin and complete investigations of suspected violations, do not necessarily apply.

## Mandate and Time Frame to Investigate Violations

In the original version of ISA, there was no firm requirement, and no time limit, for the Administration to investigate potential violations and determine that a firm has violated ISA's provisions. Some might argue that the CISADA amendments still do not set a binding determination deadline, although the parameters are narrowed significantly.

In restricting the Administration's ability to choose not to act on information about potential violations, CISADA, Section 102(g)(5), makes mandatory that the Administration begin an investigation of potential ISA violations when there is "credible information" about a potential violation. The same section of CISADA makes mandatory the 180-day time limit for a determination of violation (with the exception that the mandatory investigations and time limit go into effect one year after enactment (as of July 1, 2011), with respect to gasoline related sales to Iran). Under Section 102(h)(5), the mandate to investigate gasoline related sales can be delayed an additional 180 days if an Administration report, submitted to Congress by June 1, 2011, asserts that its policies have produced a significant result in sales of gasoline to Iran. No such report was submitted. However, there is still lack of precision over what constitutes "credible information" that an investment or sanctionable sale has been undertaken.

Earlier, P.L. 109-293, the "Iran Freedom Support Act" (signed September 30, 2006) amended ISA by calling for, *but not requiring*, a 180-day time limit for a violation determination (there is no time limit in the original law).<sup>5</sup> Early versions of that legislation (H.R. 282, S. 333) contained ISA amendment proposals that were viewed by the Bush Administration as too restrictive and potentially harmful to U.S. relations with its allies. These provisions included setting a mandatory 90-day time limit for the Administration to determine whether an investment is a violation; cutting U.S. foreign assistance to countries whose companies violate ISA; and applying the U.S.-Iran trade ban to foreign subsidiaries of U.S. firms.

## Available Sanctions Under ISA

Once a firm is determined to be a violator, the original version of ISA required the imposition of *two* of a menu of six sanctions on that firm. CISADA added three new possible sanctions and requires the imposition of at least *three out of the nine* against violators. Executive Order 13590, discussed above, provides for exactly the same penalties as those in ISA. The nine available sanctions against the sanctioned entity that the Secretary of State or the Treasury can select from (§6) include

1. denial of Export-Import Bank loans, credits, or credit guarantees for U.S. exports to the sanctioned entity;
2. denial of licenses for the U.S. export of military or militarily useful technology to the entity;
3. denial of U.S. bank loans exceeding \$10 million in one year to the entity;

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<sup>5</sup> Other ISA amendments under that law included recommending against U.S. nuclear agreements with countries that supply nuclear technology to Iran and expanding provisions of the USA Patriot Act (P.L. 107-56) to curb money-laundering for use to further WMD programs.

4. if the entity is a financial institution, a prohibition on its service as a primary dealer in U.S. government bonds; and/or a prohibition on its serving as a repository for U.S. government funds (each counts as one sanction);
5. prohibition on U.S. government procurement from the entity;
6. prohibitions in transactions in foreign exchange by the entity;
7. prohibition on any credit or payments between the entity and any U.S. financial institution;
8. prohibition of the sanctioned entity from acquiring, holding, using, or trading any U.S.-based property which the sanctioned entity has a (financial) interest in; and
9. restriction on imports from the sanctioned entity, in accordance with the International Emergency Economic Powers Act (IEEPA, 50 U.S.C. 1701).

### ***Mandatory ISA Sanction Imposed by CISADA: Prohibition on Contracts With the U.S. Government***

CISADA (§102(b)) added a provision to further compel foreign companies to comply. It requires companies, as a condition of obtaining a U.S. government contract, to certify to the relevant U.S. government agency, that the firm—and any companies it owns or controls—are not violating ISA. A contract may be terminated—and further penalties imposed—if it is determined that the company’s certification of compliance was false. CISADA required a revision of the Federal Acquisition Regulation (within 90 days of CISADA enactment on July 1, 2010) to reflect this requirement. This requirement has been imposed in regulations, as per an interim rule issued on September 29, 2010. (H.R. 6296, introduced September 29, 2010, in the 111<sup>th</sup> Congress, would have authorized state and local governments to ban such contracts.)

This sanction does not apply to any firm sanctioned under Executive Order 13590 (see above).

### **Waivers, Exemptions, and Termination Authority**

The President has had the authority under ISA to waive sanctions if he certifies that doing so is *important* to the U.S. national interest (§9(c)). CISADA (§102(c)), changed the 9(c) ISA waiver standard to “*necessary*” to the national interest. Under the original version of ISA, there was also waiver authority (§4(c)) if the parent country of the violating firm joined a sanctions regime against Iran, but this waiver provision was changed by the Iran Freedom Support Act (P.L. 109-293) to allow for a waiver determination based on U.S. vital national security interests. The Section 4(c) waiver was altered by CISADA to provide for a six month (extendable) waiver if doing so is vital to the national interest and if the parent country of the violating entity is “closely cooperating” with U.S. efforts against Iran’s WMD and advanced conventional weapons program. The criteria of “closely cooperating” are defined in the conference report, with primary focus on implementing all U.N. sanctions against Iran. However, it is not clear why an Administration would use a Section 4 waiver rather than a Section 9 waiver, although it could be argued that using a Section 4 waiver would support U.S. diplomacy with the parent country of the offending entity.

ISA (§5(f)) also contains several exceptions such that the President is not required to impose sanctions that prevent procurement of defense articles and services under existing contracts, in cases where a firm is the sole source supplier of a particular defense article or service. The

President also is not required to prevent procurement or importation of essential spare parts or component parts.

In the 110<sup>th</sup> Congress, several bills (not adopted) contained provisions that would have further amended ISA. H.R. 1400, which passed the House on September 25, 2007 (397-16), would have removed the Administration's ability to waive ISA sanctions under Section 9(c), national interest grounds, although without imposing a time limit for a sanctions determination.

### ***"Special Rule" Exempting Firms That End Their Business With Iran***

CISADA (§102(g)(5)) amended ISA to provide a means—a so-called "special rule"—for firms to avoid any possibility of U.S. sanctions by pledging to verifiably end their business with Iran and to forgo any sanctionable business with Iran in the future. Under the special rule, the Administration is not required to make a determination of sanctionability against a firm that makes such pledges. The special rule has been invoked on several occasions, as discussed below.

### **Termination Requirements and Sunset Provisions**

In its entirety, ISA application to Iran would terminate if Iran is determined by the Administration to have ceased its efforts to acquire WMD; is removed from the U.S. list of state sponsors of terrorism; *and* no longer "poses a significant threat" to U.S. national security and U.S. allies.<sup>6</sup> The amendments to ISA made by P.L. 111-195 would terminate if the first two criteria are met.

Even without such determinations, ISA was to sunset on August 5, 2001, in a climate of lessening tensions with Iran (and Libya). During 1999 and 2000, the Clinton Administration had eased the trade ban on Iran somewhat to try to engage the relatively moderate Iranian President Mohammad Khatemi. However, some maintained that Iran would view its expiration as a concession, and renewal legislation was enacted (P.L. 107-24, August 3, 2001). This law required an Administration report on ISA's effectiveness within 24 to 30 months of enactment; that report was submitted to Congress in January 2004 and did not recommend that ISA be repealed. ISA was scheduled to sunset on December 31, 2011 (as provided by P.L. 109-293). The sunset is now December 31, 2016, as provided for in CISADA.

### **Interpretations of ISA and CISADA**

ISA, as amended by CISADA, has been subject to differing interpretations based on specific definitions. Interpretations of its provisions have developed and been clarified through real world examples and cases presented to successive U.S. administrations.

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<sup>6</sup> This latter termination requirement added by P.L. 109-293. This law also removed Libya from the act, although application to Libya effectively terminated when the President determined on April 23, 2004, that Libya had fulfilled the requirements of all U.N. resolutions on Pan Am 103.

## Non-Application to Crude Oil or Natural Gas Purchases from Iran or to Official Credit Guarantee Agencies

Simple purchases of oil or natural gas from Iran are generally considered not to constitute violations of ISA, because ISA sanctions *investment* in Iran's energy sector and sales to Iran of gasoline or gasoline-related services or equipment. Some of the deals listed in the chart later in this report involve *combinations* of investment and purchase. However, as discussed later, several countries are considering banning purchases of crude oil or natural gas as the optimal means of pressuring Iran's economy.

ISA does not sanction sales to Iran of equipment that Iran could use to explore or extract its own oil or gas resources, *unless such sales are structured to provide ongoing profits or royalties (and therefore meet the definition of investments as provided in ISA).*<sup>7</sup> For example, selling Iran an oil or gas drill rig or motors or other gear that Iran will use to drill for oil or gas would not appear to be sanctionable under ISA, unless the sale is structured to provide the seller ongoing profits or royalties. However, this exception was voided by Executive Order 13590 (November 21, 2011), which does provide for sanctions against sales of such equipment and services.

Official credit guarantee agencies are not considered sanctionable entities under ISA. In the 110<sup>th</sup> Congress, several bills—including S. 970, S. 3227, S. 3445, H.R. 957 (passed the House on July 31, 2007), and H.R. 7112 (which passed the House on September 26, 2008)—would have expanded the definition of sanctionable entities to official credit guarantee agencies, such as France's COFACE and Germany's Hermes, and to financial institutions and insurers generally. Some versions of CISADA would have made these entities sanctionable but these provisions were not included in the final law, probably out of concern for alienating U.S. allies in Europe.

**Table 1. Top Energy Buyers From Iran (2011)**

(amounts in barrels per day, bpd)

European Union	600,000
China	550,000
Japan	350,000
India	350,000
South Korea	230,000
Turkey	180,000
Singapore	50,000
<b>Total</b>	<b>2.31 mbd</b>
(about 93% of Iran's oil exports of about 2.5 mbd)	

**Source:** CRS, March 2012

<sup>7</sup> Prior to CISADA, the definition of investment in ISA specifically exempted sales of equipment or services under that definition. CISADA omitted that exclusion.

## Application to Energy Pipelines

ISA's definition of sanctionable "investment" has been interpreted by successive administrations to include construction of energy pipelines to or through Iran, because such pipelines are deemed to help Iran develop its petroleum (oil and natural gas) sector. This interpretation was reinforced by amendments to ISA in CISADA, which specifically included in the definition of petroleum resources "products used to construct or maintain pipelines used to transport oil or liquefied natural gas."

The Clinton and Bush Administrations used the threat of ISA sanctions to deter oil routes involving Iran and thereby successfully promoted an alternate route from Azerbaijan (Baku) to Turkey (Ceyhan). The route became operational in 2005.

Only a few significant pipelines involving Iran have been constructed in recent years—a line built in 1997 to carry natural gas from Iran to Turkey. Each country constructed the pipeline on its side of their border. At the time the project was under construction, State Department testimony stated that Turkey would be importing gas originating in Turkmenistan, not Iran, under a swap arrangement. That was one reason given for why the State Department did not determine that the project was sanctionable under ISA. However, many believe the decision not to sanction the pipeline was because the line was viewed as crucial to Turkey, a key U.S. ally. That explanation was reinforced when direct Iranian gas exports to Turkey through the line began in 2001, and no determination of sanctionability has been made. In May 2009, Iran and Armenia inaugurated a natural gas pipeline between the two, built by Gazprom of Russia. No determination of sanctionability has been announced.

Iran and Kuwait have held talks on the construction of a 350-mile pipeline that would bring Iranian gas to Kuwait. The two sides have apparently reached agreement on volumes (8.5 million cubic meters of gas would go to Kuwait each day) but not on price.<sup>8</sup> There are also discussions reported between Iran and Iraq on constructing pipelines to facilitate oil and gas swaps between the two, but no firm movement on these projects is evident.

### *Iran-Pakistan- India Pipeline (IPI)*

Another pending pipeline project would carry Iranian gas, by pipeline, to Pakistan. India had been a part of the \$7 billion project, which would take about three years to complete, but India did not sign a memorandum between Iran and Pakistan finalizing the deal on June 12, 2010. India reportedly has been concerned about the security of the pipeline, the location at which the gas would be officially transferred to India, pricing of the gas, tariffs, and the source in Iran of the gas to be sold. Steps taken by India since late 2010, discussed later, suggest that India is now cautious about any expansion of energy relations with Iran. Previously, the threat of imposition of U.S. sanctions had not dissuaded Indian firms from investing in Iranian energy projects, as shown in **Table 5**.

During the Bush Administration, Secretary of State Rice on several occasions "expressed U.S. concern" about the pipeline deal or called it "unacceptable." Possibly contributing to India's hesitancy to move forward, the late Ambassador Richard Holbrooke, the Administration Special

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<sup>8</sup> [http://www.kuwaittimes.net/read\\_news.php?newsid=NDQ0OTY1NTU4](http://www.kuwaittimes.net/read_news.php?newsid=NDQ0OTY1NTU4); <http://english.farsnews.com/newstext.php?nn=8901181055>.

Representative on Pakistan and Afghanistan, during 2010 trips to Pakistan, raised the possibility that the project could be sanctioned if it is undertaken, citing enactment of CISADA. Nonetheless, energy experts<sup>9</sup> say Iran has largely completed the pipeline extension from its network to the Pakistan border, and Pakistan, whose relations with the United States have been severely strained since mid-2011, is moving forward with construction on its side of the border. The two countries want it to become operational by mid-2014.

If Iran resolves its disputes with the international community, India may envision an alternative to the pipeline project, as a means of tapping into Iran's vast gas resources. During high-level economic talks in early July 2010, Iranian and Indian officials reportedly raised the issue of constructing an underwater natural gas pipeline, which would avoid going through Pakistani territory. However, such a route would presumably be much more expensive to construct than would be an overland route.

### *European Gas Pipeline Routes*

Iran also is attempting to position itself as a gas exporter to Europe. The Obama Administration, like its predecessors, takes the view that Iran be excluded from gas pipeline projects to Europe, even though the projects might make Europe less dependent on Russian gas supplies. As shown in **Table 5**, in July 2007, a preliminary agreement was reached to build a second Iran-Turkey pipeline, through which Iranian gas would flow to Europe. That agreement was not finalized during Iranian President Mahmoud Ahmadinejad's visit to Turkey in August 2008 because of Turkish commercial concerns, but the deal reportedly remains under discussion. On February 23, 2009, Iranian newspapers said Iran had formed a joint venture with a Turkish firm to export 35 billion cubic meters of gas per year to Europe; 50% of the venture would be owned by the National Iranian Gas Export Company (NIGEC).

Another project involving Iran is the Nabucco pipeline project, which would transport Iranian gas to Western Europe. Iran, Turkey, and Austria reportedly have negotiated on that project. In order to avoid potential complications of sanctions on Iran, the major partners in a Trans-Adriatic Pipeline (TAP) have announced that Iranian gas would not be involved. Iran's Energy Minister Gholam-Hossein Nozari said on April 2, 2009, that Iran is considering negotiating a gas export route—the "Persian Pipeline"—that would send gas to Europe via Iraq, Syria, and the Mediterranean Sea.

### **Application to Iranian Firms or the Revolutionary Guard**

Although ISA is widely understood to apply to firms around the world that reach an investment agreement with Iran, the provisions could also be applied to Iranian firms and entities subordinate to the National Iranian Oil Company (NIOC), which is supervised by the Oil Ministry. The firm that was sanctioned, Naftiran Intertrade Company (NICO), is one such entity; it is a subsidiary of NIOC. However, such entities, including Naftiran, do not do business in the United States and would not likely be harmed by any of the penalties that could be imposed under ISA. Some of the other major components of NIOC are

- The Iranian Offshore Oil Company;

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<sup>9</sup> For example, Bijan Kajeypour of Atieh Consulting. Presentation at CSIS, October 4, 2011.

- The National Iranian Gas Export Co.;
- National Iranian Tanker Company; and
- Petroleum Engineering and Development Co.

Actual construction and work is largely done through a series of contractors. Some of them, such as Khatam ol-Anbia and Oriental Kish, have been identified by the U.S. government as controlled by Iran's Islamic Revolutionary Guard Corps (IRGC) and have been sanctioned under various executive orders, discussed below. The relationship of other Iranian contractors to the Guard, if any, is unclear. Some of the Iranian contractor firms include Pasargad Oil Co, Zagros Petrochem. Co, Sazeh Consultants, Qeshm Energy, Sadid Industrial Group, and others. Some believe the August 2011 confirmation of Khatam ol-Anbia's chief, Rostam Ghasemi, as Oil Minister, will, over time, bolster the role of the IRGC in Iran's oil sector. Ghasemi has also taken over the chair of the Organization of Petroleum Exporting Countries (OPEC) because it is Iran's turn to hold that rotating post. Ghasemi has been subjected to asset freezes by the United States and an asset freeze and travel ban by the European Union. However, under an agreement between OPEC and Austria, Ghasemi would be allowed to travel to Vienna (OPEC's headquarters) to attend OPEC meetings and perform his duties as rotating head of the organization.

### **Application to Liquefied Natural Gas**

The original version of ISA did not apply to the development of liquefied natural gas. Iran has no LNG export terminals, in part because the technology for such terminals is patented by U.S. firms and unavailable for sale to Iran. However, as noted below, CISADA specifically includes LNG in the definition of petroleum resources and therefore makes investment in LNG (or supply of LNG tankers or pipelines) sanctionable.

### **Implementation of ISA and CISADA**

The Obama Administration has, as of 2010, stepped up U.S. efforts to use ISA authorities to discourage investment in Iran and to impose sanctions on companies that insist on continuing their business with Iran. This is a contrast from the first 14 years after ISA's passage, in which successive Administrations hesitated to confront partner countries over its implementation.

The European Union opposed ISA, when it was first enacted, as an extraterritorial application of U.S. law. It threatened to file a formal complaint before the World Trade Organization (WTO). In April 1997, the United States and the EU agreed to avoid a trade confrontation over ISA and a separate Cuba sanctions law (P.L. 104-114). The agreement involved the promise by the EU not to file any complaint with the WTO over this issue, in exchange for the eventual May 18, 1998, announcement by the Clinton Administration to waive ISA sanctions ("national interest"—§9c—waiver) on the first project determined to be in violation. That project was a \$2 billion<sup>10</sup> contract, signed in September 1997, for Total SA of France and its partners, Gazprom of Russia and Petronas of Malaysia, to develop phases 2 and 3 of the 25+ phase South Pars gas field. The EU, for its part, pledged to increase cooperation with the United States on nonproliferation and counterterrorism. Then-Secretary of State Albright, in the May 18, 1998, waiver announcement,

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<sup>10</sup> Dollar figures for investments in Iran represent public estimates of the amounts investing firms are expected to spend over the life of a project, which might in some cases be several decades.



indicated that similar future such projects by EU firms in Iran would not be sanctioned, provided overall EU cooperation against Iranian terrorism and proliferation continued.<sup>11</sup> (The EU sanctions against Iran, announced July 27, 2010, might render this understanding moot because the EU sanctions ban EU investment in and supplies of equipment and services to Iran's energy sector.) Despite investments made in Iran's energy sector, as shown in **Table 5**, the Administration made no violations determinations from 1998 until September 2010.

### **ISA Sanctions Determinations: September 2010 to the Present<sup>12</sup>**

Prior to the passage of CISADA, several Members of Congress questioned why no penalties had been imposed for violations of ISA. State Department reports to Congress on ISA, required every six months, have routinely stated that U.S. diplomats raise U.S. policy concerns about Iran with investing companies and their parent countries. However, these reports have not specifically stated which foreign companies, if any, were being investigated for ISA violations. No publication of such deals has been placed in the *Federal Register*, as required by Section 5e of ISA. In an effort to address the congressional criticism, Under Secretary of State for Political Affairs William Burns testified on July 9, 2008 (House Foreign Affairs Committee), that the Statoil project (listed in **Table 6**) was under review for ISA sanctions. Statoil is incorporated in Norway, which is not an EU member, and it would therefore not fall under the 1998 U.S.-EU agreement discussed above.

Possibly in response to the pending CISADA legislation, and to an October 2009 letter signed by 50 Members of Congress referencing **Table 5**, Assistant Secretary of State for Near Eastern Affairs Jeffrey Feltman testified before the House Foreign Affairs Committee on October 28, 2009, that the Obama Administration would review investments in Iran for violations of ISA. Feltman testified that the preliminary review would be completed within 45 days (by December 11, 2009) to determine which projects, if any, require further investigation. He testified that some announced projects were for political purposes and did not result in actual investment.

On February 25, 2010, Secretary of State Clinton testified before the House Foreign Affairs Committee that the State Department's preliminary review was completed in early February and that some of the cases reviewed "deserve[] more consideration" and were undergoing additional scrutiny. The preliminary review, according to the testimony, was conducted, in part, through State Department officials' contacts with their counterpart officials abroad and corporation officials. The additional investigations of problematic investments would involve the intelligence community, according to Secretary Clinton. State Department officials told CRS in November 2009 that they intended to complete the additional investigation and determine violations within 180 days of the completion of the preliminary review, or by early August 2010. (The 180-day time frame was, according to the Department officials, consistent with the Iran Freedom Support Act amendments to ISA discussed above, even though the 180-day time frame was not a mandatory deadline before CISADA was adopted.) On June 22, 2010, then Assistant Secretary of State William Burns testified before the Senate Foreign Relations Committee that there were "less than 10" cases of possible ISA violations.

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<sup>11</sup> Text of announcement of waiver decision by then Secretary of State Madeleine Albright, containing expectation of similar waivers in the future. [http://www.parstimes.com/law/albright\\_southpars.html](http://www.parstimes.com/law/albright_southpars.html).

<sup>12</sup> Much of this section is derived from a meeting between the CRS author and officials of the State Department's Economics Bureau, which is tasked with the referenced review of investment projects. November 24, 2009.

In public statements and letters to the Administration, some Members of Congress have expressed concern that Chinese firms have not been sanctioned, indicating that the Administration might be emphasizing some policy goals with respect to China at the expense of implementing sanctions against Iran.

### ***September 30, 2010, Sanctions Determinations***

Several determinations of sanctionability were made on September 30, 2010:

- Swiss-based Iranian-owned oil trading company—*Naftiran Intertrade Company (NICO)*—became the first firm to be sanctioned under ISA. The three penalties selected were: a ban on Ex-Im Bank credits; a denial of dual use export licensing to the firm; and a denial of bank loans exceeding \$10 million. The mandatory ban on receiving U.S. government contracts applies as well.

That same day, following a months-long Administration review discussed later, four major energy sector investing companies were deemed eligible to avoid sanctions, under the ISA “special rule,” by pledging to end their business in Iran. They are

- *Total* of France,
- *Statoil* of Norway,
- *ENI* of Italy, and
- *Royal Dutch Shell* of Britain and the Netherlands.

There remained some difference of opinion on the Administration invocation of the special rule, as evident at a hearing of the House Foreign Affairs Committee on December 1, 2010. At the hearing, then Under Secretary Burns stated that companies exempted under the special rule had pledged to end their existing investments in Iran “in the very near future.” Some Members of Congress questioned the imprecision of that time frame and others question the process for determining whether a firm is adhering to its pledge to pursue no future business in Iran’s energy sector. The energy firms insisted they needed time to wind down their investments in Iran—under the buy-back program used for investments in Iran, the energy firms are paid back their investment over time, making it highly costly for them to suddenly end operations in Iran.

### ***November 17, 2010 Special Rule Application***

- *Inpex* of Japan was exempted from sanctions under the special rule on November 17, 2010, according to a State Department announcement. The firm announced on October 15, 2010, that it is shedding its stake in the Azadegan development project shown in the table.

### ***March 29, 2011, Sanctions Determination Against Belarusneft***

As shown in table **Table 5**, several additional foreign investment agreements have been agreed with Iran not covered in the September 2010 determination. Some of these firms remained under Administration scrutiny, and the Administration stated that determinations will be made within 180 days (by April 1, 2011).

- On March 29, 2011, with that deadline approaching, the State Department announced that one additional firm would be sanctioned under ISA—*Belarusneft*, a subsidiary of the Belarus government owned Belneftekhim—for a \$500 million contract with Naftiran (the company sanctioned in September 2010) to develop the Jofeir oil field discussed in **Table 5**. The three sanctions imposed were: denial of Ex-Im Bank financing, denial of U.S. export licenses, and denial of U.S. loans above \$10 million. Other subsidiaries of Belneftekhim were sanctioned in 2007 under Executive Order 13405 related to U.S. policy on Belarus.

The Administration announcement did not indicate that some of the other investments in **Table 5** or other investments, for which no ISA determinations have been made to date, are still under investigation.

### *May 24, 2011, Sanctions Imposed on Gasoline-Related Shippers*

On May 24, 2011, the Administration issued its first sanctions determinations under the CISADA-amended “trigger” that requires sanctions against sales of gasoline and related equipment and services. The reasons for the sanctions, including size of gasoline shipments to Iran, as well as the ISA-related sanctions selected, can be found at <http://www.state.gov/r/pa/prs/ps/2011/05/164132.htm>. The seven firms sanctioned were

- *Petrochemical Commercial Company International (PCCI)* of Bailiwick of Jersey and Iran
- *Royal Oyster Group* (UAE)
- *Tanker Pacific* (Singapore)
- *Allvale Maritime* (subsidiary of Ofer Brothers Group, Israel)
- *Societie Anonyme Monegasque Et Aerienne (SAMAMA)*, Monaco)
- *Speedy Ship* (UAE/Iran)
- *Associated Shipbroking* (Monaco)
- *Petroleos de Venezuela (PDVSA)* of Venezuela

The determinations of sanctionability of Allvale and SAMAMA were issued on September 13, 2011, as a “clarification” of the May 24 determinations, which named Ofer Brothers Group (and not Allvale or SAMAMA) as sanctioned entities at that time. Those two entities, as well as Tanker Pacific are, according to an author conversation with an attorney for the Ofer Brothers Group, affiliated with a Europe-based trust linked to deceased Ofer brother Sami Ofer, and not Ofer Brothers Group based in Israel. Ofer Brothers Group, based in Israel, is not therefore under sanction. The firms named were subjected primarily to the financial-related sanctions provided in ISA. With respect to PDVSA, the Administration made clear in its announcement that U.S.-based subsidiaries were not included in the determination and that U.S. purchases of Venezuelan oil would not be affected.

The day prior to the May 2011 sanctions announcement, President Obama issued an executive order clarifying that it is the responsibility of the Treasury Department to implement those ISA sanctions that involve the financial sector, including bans on loans, credits, and foreign exchange for, or imports from the sanctioned entity, as well as blockage of property of the sanctioned entity

(if these sanctions are selected by the Secretary of State, who makes the decision which penalties to impose on sanctioned entities).

### ***January 12, 2012, Determinations on Gasoline Sellers***

On January 12, 2012, the Administration determined that three firms had sold more than the threshold amounts of gasoline to Iran and imposed sanctions (ban on U.S. export licenses for sales to the firms; a ban on Export Import Bank financing for them; and denial of loans of over \$10 million to them). The three firms are

- Zhuhai Zhenrong Company (China), for allegedly brokering sales of \$500 million worth of gasoline to Iran between July 2010 and January 2011.
- Kuo Oil Pte. Ltd. (Singapore), an energy trading firm that allegedly sold \$25 million worth of gasoline to Iran between late 2010 and early 2011.
- FAL Oil Company Ltd. (UAE), an independent energy trader that sold Iran over \$70 million worth of gasoline in late 2010.

## **Ban on U.S. Trade and Investment With Iran**

A ban on U.S. trade with and investment in Iran was imposed on May 6, 1995, by President Clinton, through Executive Order 12959.<sup>13</sup> This followed an earlier March 1995 executive order barring U.S. investment in Iran's energy sector. The trade and investment ban was intended to blunt criticism that U.S. trade with Iran made U.S. appeals for multilateral containment of Iran less credible. Each March since 1995, the U.S. Administration has renewed a declaration of a state of emergency that triggered the investment ban; it is likely to be renewed again in March 2012. The operation of the trade regulations is stipulated in Section 560 of the Code of Federal Regulations (Iranian Transactions Regulations, ITR's).

Some relaxations to the trade ban during 1999-2010 account for the fact that there is some trade between the United States and Iran, although it is minimal. Total U.S.-Iran trade was about \$300 million in 2010 (\$208 million in exports to Iran, and \$94 million in imports), and about \$350 million for 2009 (\$281 million in exports to Iran, and \$67 million in imports from Iran). That is about half the value of the bilateral trade in 2008. In accordance with CISADA, the strict ban on imports from Iran was restored on September 29, 2010; the ban on exports to Iran was altered only slightly by CISADA. The restoration of a full import ban (implemented in October 2010) largely accounts for the fact that, during January to November 2011, there were only \$900,000 worth of U.S. imports from Iran; there were \$197 million in exports to Iran in that same time period.

The following conditions and modifications, as administered by the Office of Foreign Assets Control (OFAC) of the Treasury Department, apply to the operation of the trade ban.

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<sup>13</sup> The executive order was issued under the authority of: The International Emergency Economic Powers Act (IEEPA, 50 U.S.C. 1701 et seq.; the National Emergencies Act (50 U.S.C. 1601 et seq.; §505 of the International Security and Development Cooperation Act of 1985 (22 U.S.C. 2349aa-9) and §301 of Title 3, United States Code. An August 1997 amendment to the trade ban (Executive Order 13059) prevented U.S. companies from knowingly exporting goods to a third country for incorporation into products destined for Iran.

- Some goods related to the safe operation of civilian aircraft may be licensed for export to Iran (§560.528 of Title 31, C.F.R.). As recently as September 2006, the George W. Bush Administration, in the interests of safe operations of civilian aircraft, permitted a sale by General Electric of Airbus engine spare parts to be installed on several Iran Air passenger aircraft (by European airline contractors). (A provision of H.R. 6296, a bill introduced in the 111<sup>th</sup> Congress, sought to prevent these sales to Iran.) An Administration intent to sell Iran data to repair certain GE engines for its legacy American-made aircraft, in order to ensure safe operation, was notified to Congress on March 16, 2011. On June 23, 2011, the Administration sanctioned Iran Air as a proliferation entity under Executive order 13382, rendering any future licensing of parts or repairs for Iran Air unclear.
- U.S. firms may not negotiate with Iran or to trade Iranian oil overseas, but U.S. companies may apply for licenses to conduct “swaps” of Caspian Sea oil with Iran. A Mobil Corporation application to do so was denied in April 1999, and no known applications were submitted subsequent to that first attempt.
- According to the Iranian Transactions Regulations (ITR’s), the ban does not apply to personal communications (phone calls, e-mails), or to humanitarian donations. U.S. non-governmental organizations (NGOs) require a specific license to operate in Iran, but some of these NGOs say the licensing requirements are too onerous to make work in Iran practical. For example, there are restrictions on how a U.S. NGO may expend funds in Iran, for example to hire Iranian nationals.
- As noted above, since April 1999, commercial sales of food and medical products to Iran have been allowed, on a case-by-case basis and subject to OFAC licensing. According to OFAC in April 2007, licenses for exports of medicines to treat HIV and leukemia are routinely expedited for sale to Iran, and license applications are viewed favorably for business school exchanges, earthquake safety seminars, plant and animal conservation, and medical training in Iran.
- OFAC generally declines to discuss export licenses approved, and a press account on December 24, 2010,<sup>14</sup> paints a picture of broad export approvals to Iran of such condiments as ice cream sprinkles, chewing gum, food additives, hot sauces, body-building supplements, and other goods that appear to have uses other than those that are purely humanitarian or nutritive. U.S. exporters widely mentioned include Mars Co. (candy manufacturer); Kraft Foods; Wrigley’s (gum); and McCormick and Co. (spices). Some goods were sold through a Revolutionary Guard-owned chain of stores in Iran called Qods; as well as a government owned Shahrvand store and a chain called Refah. OFAC officials indicated in the press accounts that such licenses were not in contradiction with U.S. law or policy, although there might have been less than full scrutiny of some Iranian end users and that such scrutiny might be increased in future licensing decisions.
- As far as financing of approved U.S. sales to Iran, private letters of credit can be used to finance approved transactions, but no U.S. government credit guarantees

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<sup>14</sup> The information in this bullet is taken from: Becker, Jo. “With U.S. Leave, Companies Skirt Iran Sanctions.” *New York Times*, December 24, 2010.

are available, and U.S. exporters are not permitted to deal directly with Iranian banks. The FY2001 agriculture appropriations law (P.L. 106-387) contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. No U.S. Administration has authorized credit guarantees, to date. In December 2004, the trade ban was further modified to allow Americans to freely engage in ordinary publishing activities with entities in Iran (and Cuba and Sudan).

- In April 2000, the trade ban was further eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar. Financing was permitted for U.S. importers of these goods. The United States was the largest market for Iranian carpets before the 1979 revolution, but U.S. anti-dumping tariffs imposed on Iranian products in 1986 dampened many Iranian products. As discussed above, CISADA ended approval of such imports as of October 1, 2010. Prior to the entry into force of this CISADA provision, the number one U.S. import from Iran was pomegranate juice concentrate. Iranian carpets were another popular import, despite a U.S. tariff of about 3%-6%. Imports of Iranian caviar carried a duty of about 15%.

## **Non-Application to Foreign Refined Oil With Iranian Content**

The ban on trade with Iran operates largely on items produced in and originating from Iran itself. In the case of crude oil, the United States, as noted, cannot import or trade overseas any Iranian crude oil.

Existing regulations do not ban the importation, from foreign refiners, of gasoline or other energy products in which Iranian oil is contained and mixed with oil from other producers. The rationale for the regulation is that the product of a specific refinery is considered a product of the country where that refinery is located, and not a product of Iran, even if the product has some Iran-origin content. Some experts say that it is feasible to exclude Iranian content from any refinery, if there were a decision to ban U.S. imports of products with any Iranian content at all.

Much of the Iranian oil that is mixed and imported into the United States is imported from EU countries, such as the Netherlands, which has major refineries in Rotterdam, in particular. However, the EU ban on purchases of Iranian oil imposed on January 23, 2012, may moot this issue, since only a few other refineries both receive Iranian oil and export gasoline to the United States—and U.S. gasoline imports from those refineries is minor.

## **Non-Application to Foreign Subsidiaries of U.S. Firms**

The U.S. trade ban does not bar subsidiaries of U.S. firms from dealing with Iran, as long as the subsidiary has no operational relationship to the parent company. For legal and policy purposes, foreign subsidiaries are considered foreign persons, not U.S. persons, and are subject to the laws of the country in which the subsidiaries are incorporated. The March 7, 2010, *New York Times* article, cited above, discusses some subsidiaries of U.S. firms that have been active in Iran and which have also received U.S. government contracts, grants, loans, or loan guarantees. Among major foreign subsidiaries of U.S. firms that have traded with Iran are the following:

- U.S. energy equipment and energy-related shipping firms. Some subsidiaries of such firms may still be in the Iranian market, according to their recent “10-K” filings with the Securities and Exchange Commission. These include Natco Group,<sup>15</sup> Overseas Shipholding Group,<sup>16</sup> UOP (United Oil Products, a Honeywell subsidiary based in Britain),<sup>17</sup> Itron,<sup>18</sup> Fluor,<sup>19</sup> Parker Drilling, Vantage Energy Services,<sup>20</sup> PMFG, Ceradyne, Colfax, Fuel Systems Solutions, General Maritime Company, Ameron International Corporation, and World Fuel Services Corp. UOP reportedly sells refinery gear to Iran; new sales of which may be sanctionable under ISA, as amended by CISADA.
- An Irish subsidiary of the Coca Cola Company provides syrup for the U.S.-brand soft drink to an Iranian distributor, Khoshgovar. Local versions of both Coke and of Pepsi (with Iranian-made syrups) are also marketed in Iran by distributors who licensed the recipes for those soft drinks before the Islamic revolution and before the trade ban was imposed on Iran.
- Transammonia Corp., via a Swiss-based subsidiary, is said to be conducting business with Iran to help it export ammonia, a growth export for Iran.
- Press reports in early October 2011 indicated that subsidiaries of Kansas-based Koch Industries may have sold equipment to Iran to be used in petrochemical plants (making methanol) and possibly oil refineries, among other equipment. However, the reports say the sales ended as of 2007, a time at which foreign firm sales of refinery equipment to Iran were not clearly sanctionable under ISA.<sup>21</sup>

### Subsidiaries Exiting Iran

As international sanctions against Iran have increased in recent years, many foreign subsidiaries have decided that the risks of continuing to do business with Iran outweigh the benefits. These decisions to leave the Iran market might have been reached in discussions with their U.S. parent corporations.

- Chemical manufacturer Huntsman announced in January 2010 its subsidiaries would halt sales to Iran.
- Halliburton. On January 11, 2005, Iran said it had contracted with U.S. company Halliburton, and an Iranian company, Oriental Kish, to drill for gas in Phases 9 and 10 of South Pars. Halliburton reportedly provided \$30 million to \$35 million

<sup>15</sup> Form 10-K Filed for fiscal year ended December 31, 2008.

<sup>16</sup> Prada, Paulo, and Betsy McKay. Trading Outcry Intensifies. *Wall Street Journal*, March 27, 2007; Brush, Michael. Are You Investing in Terrorism? *MSN Money*, July 9, 2007.

<sup>17</sup> *New York Times*, March 7, 2010, cited previously.

<sup>18</sup> Subsidiaries of the Registrant at December 31, 2009. [http://www.sec.gov/Archives/edgar/data/780571/000078057110000007/ex\\_21-1.htm](http://www.sec.gov/Archives/edgar/data/780571/000078057110000007/ex_21-1.htm).

<sup>19</sup> “Exhibit to 10-K Filed February 25, 2009.” Officials of Fluor claim that their only dealings with Iran involve property in Iran owned by a Fluor subsidiary, which the subsidiary has been unable to dispose of. CRS conversation with Fluor, December 2009.

<sup>20</sup> Form 10-K for Fiscal year ended December 31, 2007.

<sup>21</sup> Asjylyn Loder and David Evans. “Koch Brothers Flout Law Getting Richer With Iran Sales.” *Bloomberg News*, October 3, 2011.

worth of services per year through Oriental Kish, leaving unclear whether Halliburton would be considered in violation of the U.S. trade and investment ban or the Iran Sanctions Act (ISA),<sup>22</sup> because the deals involved a subsidiary of Halliburton (Cayman Islands-registered Halliburton Products and Service, Ltd., based in Dubai). On April 10, 2007, Halliburton announced that its subsidiaries were no longer operating in Iran, as promised in January 2005.

- General Electric (GE). The firm announced in February 2005 that it would seek no new business in Iran, and it reportedly wound down preexisting contracts by July 2008. GE was selling Iran equipment and services for hydroelectric, oil and gas services, and medical diagnostic projects through Italian, Canadian, and French subsidiaries.
- Oilfield services firm Smith International said on March 1, 2010, it would stop sales to Iran by its subsidiaries. Another oil services firm, Flowserve, says its subsidiaries have voluntarily ceased new business with Iran as of 2006.<sup>23</sup> FMC Technologies took similar action in 2009, as did Weatherford<sup>24</sup> in 2008.
- On March 1, 2010, Caterpillar Corp. said it had altered its policies to prevent foreign subsidiaries from selling equipment to independent dealers that have been reselling the equipment to Iran.<sup>25</sup> Ingersoll Rand, maker of air compressors and cooling systems, followed suit.<sup>26</sup>
- In April 2010, it was reported that foreign partners of several U.S. or other multinational accounting firms had cut their ties with Iran, including KPMG of the Netherlands, and local affiliates of U.S. firms PricewaterhouseCoopers and Ernst and Young.<sup>27</sup>

In the 110<sup>th</sup> Congress, S. 970, S. 3227, S. 3445, and three House-passed bills (H.R. 1400, H.R. 7112, and H.R. 957)—would have applied sanctions to the parent companies of U.S. subsidiaries if those subsidiaries are directed by the parent company to trade with Iran. A provision of H.R. 6296, another bill introduced in the 111<sup>th</sup> Congress, would apply this sanction. The Senate version of CISADA contained a similar provision, but it was taken out in conference action. Provisions in the 112<sup>th</sup> Congress are discussed in the section below on pending legislation.

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<sup>22</sup> “Iran Says Halliburton Won Drilling Contract.” *Washington Times*, January 11, 2005.

<sup>23</sup> In September 2011, the Commerce Department fined Flowserve \$2.5 million to settle 288 charges of unlicensed exports and re-exports of oil industry equipment to Iran, Syria, and other countries.

<sup>24</sup> Form 10-K for Fiscal year ended December 31, 2008, claims firm directed its subsidiaries to cease new business in Iran and Cuba, Syria, and Sudan as of September 2007.

<sup>25</sup> “Caterpillar Says Tightens ‘No-Iran’ Business Policy.” Reuters, March 1, 2010.

<sup>26</sup> Nixon, Ron. “2 Corporations Say Business With Tehran Will Be Curbed.” *New York Times*, March 11, 2010.

<sup>27</sup> Baker, Peter. “U.S. and Foreign Companies Feeling Pressure to Sever Ties With Iran.” *New York Times*, April 24, 2010.



## Banking: Treasury Department Financial Measures, CISADA, and Patriot Act Section 311

U.S. efforts to shut Iran out of the international banking system have gained strength as other countries have joined the effort. These efforts have been implemented by the Treasury Department through progressively strong actions discussed below, culminating with legislation in late 2011 to cut off even Iran's Central Bank from the international financial system.

### Early Efforts: Targeted Financial Measures

During 2006-2010, strengthened by leverage provided in five U.N. Security Council Resolutions, then Undersecretary of the Treasury Stuart Levey and his aides presented information on Iran's efforts to use foreign banks to fund WMD programs and funnel money to terrorist groups. In so doing, Levey's office convinced at least 80 foreign banks to cease handling financial transactions with Iranian banks. Treasury Secretary Timothy Geithner has described Levey as having "led the design of a remarkably successful program"<sup>28</sup> with regard to targeting Iran's proliferation networks. Levey left office in April 2011 and was replaced by Daniel Cohen.

These actions built on efforts to prevent Iran from accessing the U.S. financial system. On September 6, 2006, the Treasury Department barred U.S. banks from handling any indirect transactions ("U-turn transactions," meaning transactions with non-Iranian foreign banks that are handling transactions on behalf of an Iranian bank) with Iran's Bank Saderat, which the Administration accused of providing funds to Hezbollah.<sup>29</sup> The Treasury Department extended that U-Turn restriction to all Iranian banks on November 6, 2008.

The Treasury Department also used punishments to pressure firms to cease doing business with Iran. In 2004, the Treasury Department fined UBS \$100 million for the unauthorized movement of U.S. dollars to Iran and other sanctioned countries, and in December 2005, the Treasury Department fined Dutch bank ABN Amro \$80 million for failing to fully report the processing of financial transactions involving Iran's Bank Melli (and another bank partially owned by Libya). In the biggest such instance, on December 16, 2009, the Treasury Department announced that Credit Suisse would pay a \$536 million settlement to the United States for illicitly processing Iranian transactions with U.S. banks.

On December 17, 2008, the U.S. Attorney for the Southern District of New York filed a civil action seeking to seize the assets of the Assa Company, a UK-chartered entity. Assa allegedly was maintaining the interests of Bank Melli in an office building in New York City. An Iranian foundation, the Alavi Foundation, allegedly is an investor in the building.

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<sup>28</sup> Hearing of the Financial Services and General Government Subcommittee of the House Appropriations Committee, *Federal News Service*, May 21, 2009.

<sup>29</sup> Kessler, Glenn. "U.S. Moves to Isolate Iranian Banks." *Washington Post*, September 9, 2006.

## Banking Provisions of CISADA

The Treasury Department efforts have been enhanced substantially by the authorities of Section 104 of CISADA and U.N. and EU sanctions. Broadly, Section 104 of CISADA seeks to exclude foreign banks from operating in the United States if these banks conduct transactions with the Revolutionary Guard or its affiliates, or with Iranian entities that are subject to international or U.S. sanctions (under various Executive Orders issued under IEEPA, such as 13224 and 13382 discussed below). The premise of the provision is that cutting off Iran's access to the international financial system would make it more difficult for Iran to move its money.

The binding provisions of Section 104 of CISADA require the Secretary of the Treasury to prescribe several sets of regulations to forbid U.S. banks from opening new "correspondent accounts" or "payable through accounts"—or force the cancellation of existing such accounts—with foreign banks that process "significant transactions" with the entities discussed above. Foreign banks that do not have operations in the United States typically establish such accounts with U.S. banks as a means of accessing the U.S. financial system and financial industry. The entities with which transactions would trigger the sanctions are

- The Islamic Revolutionary Guard Corps (IRGC) or any of its agents or affiliates that are sanctioned under U.S. executive orders. The two executive orders that have served as the principal source of U.S. sanctions against Iranian firms and organizations are Executive Order 13224 (September 23, 2001) and 13382 (June 28, 2005), discussed elsewhere in this paper.
- Any entity that is sanctioned by U.S. executive orders such as the two mentioned above. To date, over 125 entities (including individuals), almost all of them Iran-based or of Iranian origin, have been designated for Iran-related proliferation or terrorism activities under these orders. A full list is at the end of this paper.
- Any entity designated under the various U.N. Security Council resolutions adopted to impose sanctions on Iran.
- Any entity that assists Iran's Central Bank in efforts to help the IRGC acquire weapons of mass destruction or support international terrorism.

## Sanctions Imposed?

The United States has not announced any sanctions against any bank under this provision of CISADA.

## Section 311 of the Patriot Act

On November 21, 2011, the Administration took further steps to isolate Iran's banking system and to dissuade foreign banks and countries from dealing with any Iranian bank. Secretary of the Treasury Geithner announced that day that the Administration had acted under Section 311 of the USA Patriot Act (31 U.S.C. 5318A) to identify Iran as a "jurisdiction of primary money laundering concern"<sup>30</sup>—that its financial system, including the Central Bank, constitutes a threat

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<sup>30</sup> <http://www.treasury.gov/press-center/press-releases/Pages/tg1367.aspx>.

to governments or financial institutions that do business with these banks. Banks that do business with the Iranian financial system were declared at risk of supporting Iran's pursuit of nuclear weapons, its support for terrorism, and its efforts to deceive financial institutions and evade sanctions. The designation carried no immediate penalty, per se, but it imposes additional requirements on U.S. banks to ensure against improper Iranian access to the U.S. financial system. It was also intended to cause foreign banks to cease doing business with Iranian banks.

## **Sanctioning Against Dealings With Iran's Central Bank/Section 1245 of the FY2012 National Defense Authorization Act (P.L. 112-81)**

The November 21, 2011, designation, above, left many in Congress sought to try to cut off Iran's Central Bank. The congressional support for such action was based on widespread information that it was helping other Iranian banks circumvent the U.S. and U.N. banking pressure, and on the basis that it is the prime conduit to pay Iran for oil shipments. Previously, there were no mandatory sanctions against Iran's Central Bank (Bank Markazi) itself, such as those that could have been imposed had the Treasury Department designated it as a proliferation entity under Executive Order 13382 or a terrorism supporting entity under Executive Order 13224.

In November 2011, provisions to sanction foreign banks that deal with Iran's Central Bank were incorporated into a broader Iran sanctions bill, H.R. 1905, discussed below. A separate Central Bank sanctions provision was introduced by Senator Mark Kirk and Senator Robert Menendez as an amendment to a FY2012 national defense authorization bill. The provision was modified slightly in conference action on the bill—H.R. 1540—enacted and signed on December 31, 2011 (P.L. 111-81). The initiative built on an August 9, 2011, a letter signed by 92 Senators was sent to President Obama urging “a comprehensive strategy to pressure Iran's financial system by imposing sanctions” on the Central Bank of Iran.

The provision, Section 1245 of P.L. 112-81, provides for the following:

- Requires the President to prevent a foreign bank from opening an account in the United States—or impose strict limitations on existing U.S. accounts—if that bank processes payments through Iran's Central Bank.
- The provision applies to *any* transaction with the Central Bank of Iran 60 days after enactment.
- The provision applies to transactions to pay for purchases of Iranian oil only after 180 days—and only if the President certifies to Congress that the oil market *is* adequately supplied and that the parent country of the foreign bank in question has not *significantly reduced* its purchases of oil from Iran. The certification is to be issued 90 days after enactment, based on a report by the Energy Information Administration to be completed 60 days after enactment. (That report was issued on February 29, 2012, saying “EIA estimates that the world oil market has become increasingly tight over the first two months of this year.”)
- The provision applies to a foreign Central Bank only if the transaction with Iran's Central Bank is for oil purchases, and only after 180 days.
- Provides for a renewable waiver of 120 days duration if the President determines that doing so is in the national security interest.

- On February 27, 2012, the Department of the Treasury announced regulations to implement this law.

The Administration had initially opposed the provision. In testimony, Undersecretary Cohen told the Senate Foreign Relations Committee on December 2, 2011, that the Administration strongly opposed the provision because it could lead to a rise in oil prices that would actually benefit Iran. Yet, the Administration later saw value in using the provision to sanction Iran. In the signing statement on the overall bill, President Obama indicated he would implement the provision so as not to damage U.S. relations with partner countries, such as Japan and South Korea. Furthermore, key U.S. partners Britain and Canada themselves cut off dealings with Iran's Central Bank in late November 2011, as the provision was under consideration.

There is no firm definition of "significant" reduction that would cause a country to qualify for this exemption, giving the Administration substantial flexibility in dealing with foreign governments on implementation. In addition, Administration opposition might have been mitigated by the inclusion in the amendment of the waiver provision. The degree of cooperation of U.S. partners in cutting off the Central Bank is discussed in the section on international compliance below. On January 19, 2012, the Senators who drafted the provision wrote to Treasury Secretary Geithner agreeing with outside experts that the Treasury Department should define "significant reduction" as an 18% purchase reduction based on total price paid (not just volumes), and that reductions be continuous as compared with each prior six month period.<sup>31</sup>

Other early opposition from EU and other countries to the concept of sanctioning Iran's Central Bank was based on humanitarian grounds. One of the Central Bank's roles is to keep Iran's currency, the rial, stable. It does so by using hard currency to buy rials to raise the currency value, or to sell rials to bring the value down. An unstable currency could harm Iran's ability to import some needed foodstuffs and medical products, according to those opposing that sanction. Others argue that the provision unfairly harms the ability to trade with Iran in goods that do not improve Iran's strategic capabilities.

## **February 6, 2012, Executive Order**

Possibly in part to address Congressional sentiment for extensive sanctions on the Central Bank, on February 6, 2012, the President issued an Executive order imposing further sanctions on that institution. The Order requires that any assets of the Central Bank of Iran be blocked (impounded) by U.S. financial institutions. U.S. financial institutions previously were required to merely refuse such transactions with the Central Bank, or return funds to it, but the Order requires them to henceforth impound such assets.

## **Terrorism List Designation-Related Sanctions**

Several U.S. sanctions are in effect as a result of Iran's presence on the U.S. "terrorism list." The list was established by Section 6(j) of the Export Administration Act of 1979 (P.L. 96-72, as amended), sanctioning countries determined to have provided repeated support for acts of international terrorism. Iran was added to the list in January 1984, following the October 1983

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<sup>31</sup> Text of letter from Senators Mark Kirk and Robert Menendez to Secretary Geithner. January 19, 2012.

bombing of the U.S. Marine barracks in Lebanon (believed perpetrated by Hezbollah). Sanctions imposed as a consequence include a ban on U.S. foreign aid to Iran; restrictions on U.S. exports to Iran of dual use items; and requires the United States to vote against international loans to Iran.

- The terrorism list designation restricts sales of U.S. dual use items (Export Administration Act, as continued through presidential authorities under the International Emergency Economic Powers Act, IEEPA, as implemented by executive orders), and, under other laws, bans direct U.S. financial assistance (§620A of the Foreign Assistance Act, FAA, P.L. 87-195) and arms sales (§40 of the Arms Export Control Act, P.L. 95-92, as amended), and requires the United States to vote to oppose multilateral lending to the designated countries (§327 of the Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132). Waivers are provided under these laws, but successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Ex-Im Bank credits) without providing for a waiver.
- Section 307 of the FAA (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, and require proportionate cuts if these institutions work in Iran. No waiver is provided for.
- The Anti-Terrorism and Effective Death Penalty Act (§§325 and 326 of P.L. 104-132) requires the President to withhold U.S. foreign assistance to any country that provides to a terrorism list country foreign assistance or arms. Waivers are provided.

U.S. sanctions laws do not bar disaster aid. The United States donated \$125,000, through relief agencies, to help victims of two earthquakes in Iran (February and May 1997), and another \$350,000 worth of aid to the victims of a June 22, 2002, earthquake. (The World Bank provided some earthquake related lending as well.) The United States provided \$5.7 million in assistance (out of total governmental pledges of about \$32 million, of which \$17 million have been remitted) to the victims of the December 2003 earthquake in Bam, Iran, which killed as many as 40,000 people and destroyed 90% of Bam's buildings. The United States military flew in 68,000 kilograms of supplies to Bam. In the Bam case, there was also a temporary exemption made in the regulations to allow for a general licensing (no need for a specific license) for donations to Iran of humanitarian goods by American citizens and organizations. Those exemptions were extended several times but expired in March 2004. When that expiration occurred, the policy reverted to a requirement for specific licensing (application to OFAC) and approval process for donations and operations in Iran of U.S.-based humanitarian NGO's.

## **Executive Order 13224: Sanctioning Terrorism Supporting Entities**

Executive Order 13224 (September 23, 2001) authorizes the President to freeze the assets of and bar U.S. transactions with entities determined to be supporting international terrorism. This order, issued two weeks after the September 11, 2001, attacks on the United States, under the authority of the IEEPA, the National Emergencies Act, the U.N. Participation Act of 1945, and Section 301 of the U.S. Code, was intended to primarily target Al Qaeda-related entities. However, it has increasingly been applied to Iranian entities. Such Iran-related entities named and sanctioned under this order are in **Table 6**, which also contains the names of Iranian entities sanctioned under other orders and under United Nations resolutions.

Among recent Iran-related designations under this Order, on October 12, 2011, the Treasury Department designated Mahan Air, an airline operating in Iran and the Persian Gulf region, under this Order, for allegedly helping the Qods Force (the arm of Iran's Revolutionary Guard that supports pro-Iranian movements abroad) ship weapons and other gear. The announcement followed U.S. revelations of an alleged Qods plot to assassinate the Saudi Ambassador to the United States in Washington, DC—the Qods officers and others allegedly involved in this purported plot were sanctioned under this Order the previous day (October 11).

Earlier, on July 28, 2011, the Treasury Department designated six members of Al Qaeda under this order for allegedly serving as financiers for Al Qaeda. The six are based in Iran, according to the Treasury Department and are allowed to operate from Iran under an agreement between Al Qaeda and the Iranian government.

## **Proliferation-Related U.S. Sanctions**

Iran is prevented from receiving advanced technology from the United States under relevant and Iran-specific anti-proliferation laws<sup>32</sup> and by Executive Order 13382 (June 28, 2005). Some of these laws and executive measures seek to penalize foreign firms and countries that provide equipment to Iran's WMD programs.

### **Iran-Iraq Arms Nonproliferation Act**

The Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) imposes a number of sanctions on foreign entities that supply Iran with WMD technology or “destabilizing numbers and types of conventional weapons.” Sanctions imposed on violating entities include a ban, for two years, on U.S. government procurement from that entity, and a two-year ban on licensing U.S. exports to that entity. A sanction to ban imports to the United States from the entity is authorized.

If the violator is determined to be a foreign country, sanctions to be imposed are a one-year ban on U.S. assistance to that country; a one-year requirement that the United States vote against international lending to it; a one-year suspension of U.S. co-production agreements with the country; a one-year suspension of technical exchanges with the country in military or dual use technology; and a one-year ban on sales of U.S. arms to the country. The President is also authorized to deny the country most-favored-nation trade status; and to impose a ban on U.S. trade with the country.

The Iran-Iraq Arms Nonproliferation Act (§1603) also provides for a “presumption of denial” for all dual use exports to Iran (which would include computer software). A waiver to permit such exports, on a case-by-case basis, is provided for.

### **Iran-North Korea-Syria Nonproliferation Act**

The Iran Nonproliferation Act (P.L. 106-178), now called the Iran-North Korea-Syria Non-Proliferation Act (INKSNA) authorizes sanctions on foreign *persons* (individuals or corporations,

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<sup>32</sup> Such laws include the Atomic Energy Act of 1954 and the Energy Policy Act of 2005 (P.L. 109-58).

not countries or governments) that are determined by the Administration to have assisted Iran's WMD programs. It bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under its control had not transferred any WMD or missile technology to Iran within the year prior.<sup>33</sup> (A Continuing Resolution for FY2009, which funded the U.S. government through March 2009, waived this law to allow NASA to continue to use Russian vehicles to access the International Space Station.) Pending legislation in the 112<sup>th</sup> Congress, discussed later, would amend INKSNA.

## Executive Order 13382

Executive Order 13382 (June 28, 2005) allows the President to block the assets of proliferators of weapons of mass destruction (WMD) and their supporters under the authority granted by the International Emergency Economic Powers Act (IEEPA, 50 U.S.C. 1701 et seq.), the National Emergencies Act (50 U.S.C. 1601 et seq.), and Section 301 of Title 3, United States Code. As is the case with Executive Order 13224, this Order has been used extensively to sanction Iran-related entities; **Table 6** lists Iran-related entities sanctioned under the order. As an example, the IRGC is named as a proliferation entity under the Order.

Among recent designations, on January 23, 2012, one of Iran's largest banks and one of the few remaining that does substantial business with the international financial sector, Bank Tejarat, was designated. Also designated that day was a Belarus-based affiliate, Trade Capital Bank.

## Foreign Aid Restrictions for Suppliers of Iran

In addition, successive foreign aid appropriations punish the Russian Federation for assisting Iran by withholding 60% of any U.S. assistance to the Russian Federation unless it terminates technical assistance to Iran's nuclear and ballistic missiles programs.

## U.S. Efforts to Promote Divestment

A growing trend not only in Congress but in several states is to require or call for or require divestment of shares of firms that have invested in Iran's energy sector (at the same levels considered sanctionable under the Iran Sanctions Act).<sup>34</sup> The concept of these sanctions is to express the view of Western and other democracies that Iran is an outcast internationally. A divestment provisions was contained in CISADA (P.L. 111-195)—in particular providing a "safe harbor" for investment managers who sell shares of firms that invest in Iran's energy sector.

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<sup>33</sup> The provision contains certain exceptions to ensure the safety of astronauts, but it nonetheless threatened to limit U.S. access to the international space station after April 2006, when Russia started charging the United States for transportation on its Soyuz spacecraft. Legislation in the 109<sup>th</sup> Congress (S. 1713, P.L. 109-112) amended the provision in order to facilitate continued U.S. access and extended INA sanctions provisions to Syria.

<sup>34</sup> For information on the steps taken by individual states, see National Conference of State Legislatures. State Divestment Legislation.

Earlier, in the 110<sup>th</sup> and 111<sup>th</sup> Congresses, several bills, including H.R. 1400, H.R. 2347 (passed by the House on July 31, 2007), H.R. 1327, H.R. 1357, S. 1430, and others contained divestment provisions.

## **U.S. Sanctions Intended to Support Democratic Change in Iran or Alter Iran's Foreign Policy**

A trend since the June 2009 Iran election dispute has been to promote the prospects for the domestic opposition in Iran. Proposals to target the Revolutionary Guard for sanctions, discussed throughout, represent one facet of that trend. The IRGC is involved in Iran's WMD programs but it is also the key instrument through which the regime has suppressed the pro-democracy movement. Several measures to support the opposition's ability to communicate, to reduce the regime's ability to monitor or censor Internet communications and to identify and sanction Iranian human rights abusers, were included in CISADA.

Earlier legislation, the Iran Freedom Support Act (IFSA, P.L. 109-293), represented a congressional effort to promote the prospects for opponents of the regime. That law authorized "sums as may be necessary" to assist Iranians who are "dedicated" to "democratic values ... and the adoption of a democratic form of government in Iran"; and "advocates the adherence by Iran to nonproliferation regimes...."

## **Expanding Internet and Communications Freedoms**

Some Members have focused on expanding Internet freedom in Iran or preventing the Iranian government from using the Internet to identify opponents. Subtitle D of the FY2010 Defense Authorization Act (P.L. 111-84), called the "VOICE" (Victims of Iranian Censorship) Act contained several provisions to increase U.S. broadcasting to Iran and to identify (in a report to be submitted 180 days after enactment, or April 25, 2009) companies that are selling Iran technology equipment that it can use to suppress or monitor the internet usage of Iranians. The act authorized funds to document Iranian human rights abuses since the June 12, 2009, presidential election. Another provision (§1241) required an Administration report, not later than January 31, 2010, on U.S. enforcement of sanctions against Iran, and the effect of those sanctions on Iran.

In the 111<sup>th</sup> Congress, the "Reduce Iranian Cyber-Suppression Act," (S. 1475 and H.R. 3284) was incorporated into CISADA. It authorizes the President to ban U.S. government contracts with foreign companies that sell technology that Iran could use to monitor or control Iranian usage of the internet. Another provision of CISADA (§103(b)(2)) exempts from the U.S. export ban on Iran equipment to help Iranians communicate and use the Internet. The provisions were directed, in part, against firms, including a joint venture between Nokia (Finland) and Siemens (Germany), reportedly sold Internet monitoring and censorship technology to Iran in 2008.<sup>35</sup> Perhaps to avoid further embarrassment, Siemens announced on January 27, 2010, that it would stop signing new business deals in Iran as of mid-2010.<sup>36</sup> There is some concern that a large Chinese firm, Huawei,

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<sup>35</sup> Rhoads, Christopher. "Iran's Web Spying Aided by Western Technology." Wall Street Journal, June 22, 2009.

<sup>36</sup> End, Aurelia. "Siemens Quits Iran Amid Mounting Diplomatic Tensions." Agence France Press, January 27, 2010.



might have sold Iran Internet monitoring or censorship gear as part of its work in Iran's communications industry although there is no clear information that it has done so.

In line with this trend, on March 8, 2010, OFAC amended the Iran Transactions Regulations that implement the U.S.-Iran trade ban to provide for a general license for providing to Iranians free mass market software in order to facilitate internet communications. The ruling appeared to incorporate the major features of a proposal in the 111<sup>th</sup> Congress, H.R. 4301, the "Iran Digital Empowerment Act." The OFAC determination required a waiver of the provision of the Iran-Iraq Arms Nonproliferation Act (§1606 waiver provision) discussed above.

To counter some of the efforts above, and among other measures, in 2011 the Iranian government established a "cyber police" force. Part of the force's duties are to sensitize young Iranians to the government view that Western countries are using the Internet to undermine Iran's Islamic values and government.<sup>37</sup>

## **Measures to Sanction Human Rights Abuses and Promote the Opposition**

Another part of the effort to help Iran's opposition has been legislation to sanction regime officials involved in suppressing the domestic opposition in Iran. Senator John McCain proposed to offer amendments to S. 2799 (the Senate version of what became H.R. 2194) to focus on banning travel and freezing assets of those Iranians determined to be human rights abusers. These provisions were included in the conference report on CISADA. The provisions were similar to those of Senator McCain's earlier stand alone bill, S. 3022, the "Iran Human Rights Sanctions Act." Companion measures in the House were H.R. 4647 and H.R. 4649.

On September 29, 2010, the Administration implemented the CISADA provision when President Obama signed an Executive Order (13553) providing for the CISADA sanctions against Iranians determined to be responsible for or complicit in post-2009 Iran election human rights abuses. Along with the order, an initial group of eight Iranian officials were penalized, including Mohammad Ali Jafari, the commander-in-chief of the IRGC, and several other officials who were in key security or judicial positions at the time of the June 2009 election and aftermath. Several additional officials and security force entities have been sanctioned under the Order since, as shown in the table at the end of this paper. Under State Department interpretations of the executive order, if an entity is designated, all members of that entity are ineligible for visas to enter the United States.<sup>38</sup> Similar sanctions against many of these same officials—as well as several others—have been imposed by the European Union—a total of 61 Iranians have been so sanctioned by the EU to date, including 29 Iranian officials sanctioned on October 5, 2011.

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<sup>37</sup> Thomas Erdbrink. "Iran's Cyber Police Battle the Lure of the Internet." *Washington Post*, October 30, 2011.

<sup>38</sup> U.S. Department of the Treasury, Office of Public Affairs. Treasury Sanctions Iranian Security Forces for Human Rights Abuses, June 9, 2011.

## **Executive Order 13438 and 13572: Sanctioning Iranian Involvement in the Region**

Some sanctions have been imposed to try to punish Iran's involvement in certain activities in the region. On July 7, 2007, President Bush issued Executive Order 13438. The order sanctions Iranian persons who are posing a threat to Iraqi stability, presumably by providing arms or funds to Shiite militias there. Some persons sanctioned have been Qods Force officers, some have been Iraqi Shiite militia-linked figures, and some entities have been sanctioned as well.

More recently, the Qods Force and a number of Iranian Qods Force officers, including Qods Force commander Qasem Soleimani, have been sanctioned under Executive Order 13572. That order was issued on April 29, 2011, targeting Syrian officials and other responsible for human rights abuses and repression of the Syrian people. The Iranians were sanctioned for allegedly helping Syria commit abuses against protesters and repress its domestic opposition movement that has conducted nationwide demonstration since March 2011. In September 2011, the European Union similarly sanctioned the Qods Force for its purported assistance to Syria's repression.

## **Separate Visa Ban**

On July 8, 2011, in conjunction with Britain, the United States imposed visa restrictions on more than 50 Iranian officials for participating in political repression in Iran. The State Department announcement stated that the names of those subject to the ban would not be released because visa records are confidential. The action was taken under the authorities of Section 212(a)(3)(C) of the Immigration and Nationality Act, which renders inadmissible to the United States a foreign person whose activities could have serious consequences for the United States.

## **Blocked Iranian Property and Assets**

Iranian leaders continue to assert that the United States is holding Iranian assets, and that this is an impediment to improved relations. A U.S.-Iran Claims Tribunal at the Hague continues to arbitrate cases resulting from the 1980 break in relations and freezing of some of Iran's assets. Major cases yet to be decided center on hundreds of Foreign Military Sales (FMS) cases between the United States and the Shah's regime, which Iran claims it paid for but were unfulfilled. A reported \$400 million in proceeds from the resale of that equipment was placed in a DOD FMS account and may remain in this escrow account, although DoD has not provided CRS with a precise balance. Additionally, according to the Treasury Department "Terrorist Assets report" for 2010, about \$48 million in Iranian diplomatic property and accounts remains blocked—this amount includes proceeds from rents received on the former Iranian embassy in Washington, DC, and 10 other properties in several states, along with 6 related bank accounts.<sup>39</sup>

Other past disputes include the mistaken U.S. shoot-down on July 3, 1988, of an Iranian Airbus passenger jet (Iran Air flight 655), for which the United States, in accordance with an ICJ judgment, paid Iran \$61.8 million in compensation (\$300,000 per wage earning victim, \$150,000 per nonwage earner) for the 248 Iranians killed. The United States has not compensated Iran for

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<sup>39</sup> <http://www.treasury.gov/resource-center/sanctions/Documents/tar2010.pdf>.

the airplane itself. The Bush Administration opposed a terrorism lawsuit against Iran by victims of the U.S. Embassy Tehran seizure on the grounds of diplomatic obligation.<sup>40</sup>

In another case, there are reportedly about \$2 billion in assets held by Citigroup, deposited there by Luxembourg-based Clearstream Banking SA. The assets reputedly belong to Iran and have been frozen and held against terrorism judgments against Iran. Iran's Central Bank reportedly is preparing to file a motion in U.S. court to unfreeze the assets.

## U.N. Sanctions

The U.S. sanctions discussed in this report are more extensive than those imposed, to date, by the United Nations Security Council or by individual foreign countries or groups of countries, such as the European Union. However, U.N. sanctions apply to all U.N. member states, and therefore tend to be more effective than unilateral sanctions. There is increasing convergence among all these varying sets of sanctions.

As part of a multilateral process of attempting to convince Iran to choose the path of negotiations or face further penalty, during 2006-2008, three U.N. Security Council resolutions—1737, 1747, and 1803—imposed sanctions primarily on Iran's weapons of mass destruction (WMD) infrastructure. The multilateral group negotiation with Iran ("P5+1," the Security Council permanent members, plus Germany) at the same time offered Iran incentives to suspend uranium enrichment. After failed negotiations with Iran during 2009, Resolution 1929 was adopted on June 9, 2010, by a vote of 12-2 (Turkey and Brazil), with one abstention (Lebanon). (Iranian entities and persons sanctioned by the United Nations are in **Table 6**.)

The main points of Resolution 1929 are<sup>41</sup>

- It added several firms affiliated with the Revolutionary Guard firms to the list of sanctioned entities.
- It made mandatory a ban on travel for Iranian persons named in it and in previous resolutions—including those Iranians for whom there was a nonbinding travel ban in previous resolutions.
- It gave countries the authorization to inspect any shipments—and to dispose of its cargo—if the shipments are suspected to carry contraband items. However, inspections on the high seas are subject to concurrence by the country that owns that ship. This provision is modeled after a similar provision imposed on North Korea, which did cause that country to reverse some of its shipments.
- It prohibited countries from allowing Iran to invest in uranium mining and related nuclear technologies, or nuclear-capable ballistic missile technology.
- It banned sales to Iran of most categories of heavy arms to Iran and requests restraint in sales of light arms, but does not bar sales of missiles not on the "U.N. Registry of Conventional Arms."

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<sup>40</sup> See CRS Report RL31258, *Suits Against Terrorist States by Victims of Terrorism*, by Jennifer K. Elsea.

<sup>41</sup> Text of the resolution is at [http://www.isis-online.org/uploads/isis-reports/documents/Draft\\_resolution\\_on\\_Iran\\_annexes.pdf](http://www.isis-online.org/uploads/isis-reports/documents/Draft_resolution_on_Iran_annexes.pdf).

- It required countries to insist that their companies refrain from doing business with Iran *if* there is reason to believe that such business could further Iran's WMD programs.
- It requested, but did not mandate, that countries prohibit Iranian banks to open in their countries, or for their banks to open in Iran, *if* doing so could contribute to Iran's WMD activities.
- It authorized the establishment of a "panel of experts" to assist the U.N. sanctions committee in implementing the Resolution and previous Iran resolutions, and to suggest ways of more effective implementation.
- It did not mandate a ban on: shipping insurance for shipments to Iran; international investment in Iran's energy sector; the provision of trade credits to Iran; or all financial dealings with Iranian banks.

**Table 2. Summary of Provisions of U.N. Resolutions on Iran Nuclear Program (1737, 1747, 1803, and 1929)**

Freeze the assets of over 80 named Iranian persons and entities, including Bank Sepah, and several corporate affiliates of the Revolutionary Guard. (Entities named in annexes to each of the resolutions.)

Prohibit transfer to Iran of nuclear, missile, and dual use items to Iran, except for use in light-water reactors

Prohibit Iran from exporting arms or WMD-useful technology

Prohibit Iran from investing abroad in uranium mining, related nuclear technologies or nuclear capable ballistic missile technology (1929)

Require Iran to suspend uranium enrichment, and to refrain from any development of ballistic missiles that are nuclear capable (1929)

Require that countries ban the travel of over 40 named Iranians

Mandates that countries not export major combat systems to Iran (1929)

Calls for "vigilance" (a nonbinding call to cut off business) with respect to all Iranian banks, particularly Bank Melli and Bank Saderat.

Calls for vigilance (voluntary restraint) with respect to providing international lending to Iran and providing trade credits and other financing and financial interactions.

Calls on countries to inspect cargoes carried by Iran Air Cargo and Islamic Republic of Iran Shipping Lines—or by any ships in national or international waters—if there are indications they carry cargo banned for carriage to Iran. Searches in international waters would require concurrence of the country where the ship is registered. (1929)

A Sanctions Committee, composed of the 15 members of the Security Council, monitors Implementation of all Iran sanctions and collects and disseminates information on Iranian violations and other entities involved in banned activities. A "panel of experts" is empowered by 1929 to make recommendations for improved enforcement.

**Source:** Text of U.N. Security Council resolutions 1737, 1747, 1803, and 1929. <http://www.un.org>. More information on specific provisions of each of these resolutions and the nuclear negotiations with Iran is in CRS Report. CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

## International Implementation and Compliance

U.S. and European/allied approaches had been gradually converging since 2002, when the nuclear issue came to the fore. As of 2010 an unprecedented degree of global consensus has emerged to pressure Iran. Many U.S. allies—including several neighbors of Iran, such as UAE and Saudi Arabia, have formed an informal coalition called the "like minded countries"—have

joined the Obama Administration's efforts to pressure Iran. Even those outside the "like minded countries" coalition are generally complying with the provisions of U.N. sanctions. This international adoption of sanctions is attributable to the perception that the sanctions are not purely punitive, and in part to the growing concerns of U.S. partner countries about Iran's nuclear advancement.

## **European Union and Other Western States**

The European Union and other Western allies of the United States have been increasingly aligning their sanctions with those of the United States. Among the latest actions, on November 21, 2011, in a concerted action with those taken by the U.S. Treasury Department (see above under §311 of the Patriot Act), Britain and Canada announced they would no longer do business with Iran's financial institutions, including Iran's Central Bank. Iran's parliament subsequently voted to downgrade relations with Britain, a move that, on November 29, 2011, contributed to the overrunning of the British Embassy in Tehran by pro-government students, with at least the partial apparent complicity of regime security forces. That attack prompted Britain to give all Iranian diplomats 48 hours to leave Britain, and precipitated a European Union meeting on December 1, 2011. At that meeting, the EU designated an additional 180 Iranian entities, mostly those linked to the Revolutionary Guard, as subject to assets freezes and travel bans. One of the entities is the Islamic Republic of Iran Shipping Lines (IRISL).

The Belgium-based SWIFT organization (Society for Worldwide International Financial Transfers) announced in February 2012 that it would abide by any EU decision to expel Iranian banks (about 18 still are members of the network) from its membership. Such a move, not ordered by the EU to date, would cut off those Iranian banks that are still in the SWIFT system from using the mechanism to process international payments.

Still, some EU countries complain that U.S. sanctions could bar them from processing even legal trade with Iran, such as in automobiles, by blocking acceptable payments mechanisms. A comparison between U.S., U.N., and EU sanctions against Iran is contained in the chart below, although noting that there are differing legal bases and authorities for these sanctions.

## **EU Oil Embargo and Central Bank of Iran Cutoff**

The EU has joined the United States in targeting Iran's lifeline, its oil exports, for sanctions. At the January 23, 2012 EU meeting, the EU decided to:

- Refrain from new contracts to purchase Iranian oil and to wind down existing contracts from the present until July 1, 2012. There would be a review on May 1, 2011, about the effect of the move on the EU's vulnerable economies, such as Spain, Italy, and Greece, which each get more than 10% of their imported oil from Iran and have the greatest need of lining up alternative supplies. Britain and Germany only get about 1% of their oil from Iran, and France about 4%. Collectively, the EU buys about 600,000 barrels per day of Iranian oil, about a quarter of Iran's total oil exports, which presumably will now be supplied by Saudi Arabia or other suppliers that have spare production capacity.
- Stop all trade with Iran in gold, precious metals, diamonds, and petrochemical products.

- Freeze the assets of Iran's Central Bank, although transactions would still be permitted for approved legitimate trade.
- Freeze the assets of several Iranian firms involved in shipping arms to Syria or which support shipping by IRISL, and cease doing business with port operator Tidewater (see above).

## **Japan and South Korea**

Japan and South Korea have joined the international coalition that is pressuring Iran, in part to maintain their close relations with the United States, but also out of concern about Iran's nuclear program. In early September 2010, Japan and then South Korea announced Iran sanctions similar to those of the EU. Both countries adopted measures limiting trade financing for Iran, limiting new banking relations with Iran, sanctioning numerous named Iranian entities, and restricting new projects in Iran's energy sector. The sanctions adopted by both were far more extensive than was expected by U.S. officials. On December 16, 2011, South Korea announced new sanctions to align policy with the November 2011 U.S. decision to sanction sales to Iran of energy sector equipment.

Both countries have announced cooperation with the United States and the EU targeting of Iran's oil exports, but both are worried about threats to their oil supplies and, therefore, their economies. Their cooperation is considered by U.S. officials essential to overall U.S. strategy of cutting Iran's exports of oil substantially. Each gets about 10% of its oil from Iran. Both countries have been concerned that the U.S. legislation (P.L. 112-81, discussed above) to sanction foreign banks that deal with Iran's Central Bank would result in a sudden end to their ability to pay for Iranian oil, and that this would lead to a spike in world oil prices or a cutoff of their supplies. In meetings with visiting U.S. officials in December 2011 and January 2012, such as senior State Department official Robert Einhorn and Treasury Secretary Timothy Geithner, both countries reportedly acquiesced to cutting their oil purchases from Iran—and therefore qualify for the exemption from sanctions—under the provisions of P.L. 112-81 discussed above. Press reports in February 2012 indicate Japan might reduce its imports of Iranian oil by about 20% (70,000 bpd), which Japan hopes would qualify for a sanctions exemption (which would benefit its banks, such as Mitsubishi UFJ Financial Group, Mizuho, and Sumitomo Mitsui), that process transactions with Iran's Central Bank ) under P.L. 112-81.<sup>42</sup> South Korea is perceived likely to match any reductions adopted by Japan. At the same time, both Japan and South Korea have indicated it would not be possible for them to completely end all Iranian oil purchases.

## **India**

India's record of cooperation with multilateral sanctions against Iran is mixed. India has generally been considered friendly toward Iran, and many experts were surprised when India's central bank, in late December 2010, announced that it would no longer use a regional body, the Asian Clearing Union, to handle transactions with Iran. The Asian Clearing Union, based in Tehran, was set up in the 1970s by the United Nations to ease commerce among Asian nations. There have been allegations in recent years that Iran might be using the Clearing Union to handle transactions so

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<sup>42</sup> "Japan May Cut Iran Oil Imports by Over 20 Percent" Reuters, February 23, 2012.

as to avoid limitations imposed by European and other banks. The Indian move followed President Obama's visit there in November 2010.

The Indian move complicated India's purchases of about 350,000 barrels per day of Iranian oil (about \$11 billion worth of oil in 2011), and Indian officials subsequently undertook negotiations with Iran to find an alternate mechanism to clear Indian payments for that oil and other Iranian goods. Still, the Indian move—and the reported difficulty in agreeing to a replacement payments mechanism—signaled to some experts that India might join U.S./European-led efforts to shut Iran out of the international financial system.

Several banks considered as replacement mechanisms were either under U.N. sanctions or fear fallout (restrictions in the U.S. banking system) from transacting banking business for Iran. In February 2011, India and Iran agreed to use an Iranian bank, *Europaisch-Iranische Handelsbank* (EIH) to clear the payments. EIH has accounts with National Iranian Oil Company as well as with the Central Bank of Germany, rendering the bank able to process the Indian payments to Iran. Some Members of Congress had characterized that bank as one of Iran's few remaining access points to the European financial system and had asked the German government to order it closed.<sup>43</sup> On May 23, 2011, the EU named EIH and about 100 other entities as Iran proliferation-related activities, rendering India and Iran again in search of an alternative payments mechanism. With approximately \$6.3 billion in oil payments due Iran building up in an escrow account, in July 2011 Iran threatened to reduce or cut off entirely oil shipments to India. In late July 2011, the two identified Turkey's Halkbank as an acceptable processor, and, on September 4, 2011, Iran's Central Bank Governor said India had fully settled its debt.

India's position on whether it will cooperate with a broader oil embargo on Iran remains in doubt as of March 2012. The U.S. law sanctioning dealings with Iran's Central Bank led Halkbank to express the view that it might not be able to continue handling payments to Iran. There were reports that India was willing to cut some oil purchases from Iran. However, in the course of Iran-India discussions about a new payments mechanism that might include payment in rupees, or through barter trade, press reports in late February 2012 indicated India had actually increased its oil buys from Iran to 550,000 barrels per day as of early 2012, and that it would not likely permanently cut its oil buys from Iran below baseline levels (350,000 bpd). These reports added that India would send a large trade delegation to Iran (March 10-14, 2012) to discuss new trade opportunities in goods not subject to international sanctions. Some Members of Congress wrote to India's Ambassador in Washington, D.C. on March 1, 2012 urging India to join U.S. and EU-led efforts to curb Iran's oil exports.

## **China and Russia**

The position of Russia, China, and several other countries—that they will impose only those sanctions specifically required by U.N. Security Council resolutions—has been of concern to several Members of Congress. Members and outside experts have expressed concern that Chinese firms, in particular, might move to fill the void in Iran's energy industry left by vacating European firms ("backfill"), but Administration officials say they have not seen evidence of such a trend. Some Members have also criticized successive Administrations for refusing to sanction Chinese companies for what appear to be clear violations of ISA and other U.S. sanctions provisions.

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<sup>43</sup> Letter signed by 11 U.S. Senators to German Foreign Minister Guido Westerwelle. February 1, 2011.

Russia is an oil exporter itself and a need to preserve oil imports from Iran is therefore not a factor in its Iran policy calculations. However, Russia has earned hard currency from large projects in Iran, such as the Bushehr nuclear reactor, and it also seeks not to provoke Iran into supporting Islamist movements in the Muslim regions of Russia and the Central Asian states that remain politically close to Moscow.

## China

China may be seeking to take advantage of the sanctions for its own purposes, and in so doing signaling to Iran that it disapproves of its behavior. In meetings with U.S. officials in January 2012, China has indicated that it will not join an EU embargo on Iranian oil, nor would it pledge to significantly reduce its oil purchases from their 2011 average level of about 550,000 barrels per day. However, oil industry observers say that China cut its oil buys from Iran by about 50% for January 2012, apparently in an attempt to force Iran to discount the oil it sells to China. The reduction could have been caused by a disagreement between Iran and Unipet, one of China's top importers—a disagreement reportedly resolved in mid-February 2012 and which is likely to cause China's imports from Iran to return to baseline levels.

China may be less vulnerable to any U.S. sanctions than is Japan or South Korea. China buys about 20% of Iran's total oil exports—with a value of about \$16 billion in 2011—making it Iran's largest single customer. That amount has been sufficient to offset the approximately \$12 billion in goods Iran buys from China, meaning that China has to settle some of this trade balance in hard currency. Treasury Department officials say China does not make extensive use of payments through Iran's Central Bank. In addition, Chinese banks may not have or seek a presence in the United States, which would enable them to avoid any penalty from the recently enacted U.S. sanctions (in P.L. 112-81) against doing business with Iran's Central Bank.

An even more significant concern is that China may be refusing or failing to prevent Iran from acquiring weapons and WMD technology. Secretary of State Clinton singled out China on January 19, 2011, as not enforcing all aspects of international sanctions that bar sales of most nuclear-related equipment to Iran; the comment came on the eve of the state visit to the United States by President Hu Jintao. On March 9, 2011, State Department Special Adviser for Non-Proliferation and Arms Control, Robert Einhorn, said Iran may be working with Chinese firms to obtain sensitive technology useful for nuclear weapons development. In some cases, Iran has been able, according to some reports, to obtain sophisticated technology from U.S. firms.<sup>44</sup>

## Turkey

Turkey is a large buyer of Iranian oil; in 2011, it averaged 180,000 bpd. Turkey also buys natural gas from Iran through their mutual pipeline. Turkey, which has sometimes sought to mediate between Iran and the Western countries, has said it will not reduce its oil buys from Iran in response to U.S. sanctions on Iran's Central Bank. Yet, Turkey has, on several occasions, blocked or impounded Iranian arms and other contraband shipments bound for Syria or Lebanese Hezbollah.

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<sup>44</sup> Warrick, Joby. "Iran Using Fronts to Get Bomb Parts From U.S." *Washington Post*, January 11, 2009; Institute for Science and International Security. "Iranian Entities' Illicit Military Procurement Networks." David Albright, Paul Brannan, and Andrea Scheel. January 12, 2009.



## Persian Gulf and Other Middle Eastern States

The Persian Gulf countries are, themselves, oil exporters, and their role is evaluated for their potential to compensate for reduction in other country purchases of oil from Iran. Although those Gulf states with spare capacity appear willing to fully supply the market, their cooperation with other U.S. sanctions against Iran has tended to be mixed. Most experts attribute this record to strategic considerations colored by wariness and suspicion of Iran, which are discussed in detail in CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman. That paper discusses the relations between Iran and other Middle Eastern states such as Syria.

Still, the UAE is very closely watched by U.S. officials because of its historic extensive business dealings with Iran. U.S. officials offered substantial praise for decision announced March 1, 2012, by Dubai-based Noor Islamic Bank to end transactions with Iran. Iran reportedly uses the bank to process a substantial portion of its oil payments.

## Latin America

Iran is looking to several Latin American countries, including Venezuela, Cuba, Ecuador, Nicaragua, and Bolivia, to try to reduce the effects of international sanctions. Iran believes that these and other Latin American countries might be willing, in part because of their own differences with the United States, to conduct certain transactions with Iran that might be sanctionable. Venezuela appears willing to help Iran and, as noted earlier in this paper, its state oil company has been sanctioned under the ISA. For the most part, however, Iran's trade and other business dealings with Latin America remain modest and likely to reduce the effect of sanctions on Iran marginally at most.

## Contrast With Previous Periods

The emerging consensus on Iran sanctions differs from early periods when there was far more disagreement. Reflecting the traditional European preference for providing incentives rather than enacting economic punishments, during 2002-2005, there were active negotiations between the European Union and Iran on a "Trade and Cooperation Agreement" (TCA). Such an agreement would have lowered the tariffs or increased quotas for Iranian exports to the EU countries.<sup>45</sup> However, negotiations were discontinued after the election of Ahmadinejad in June 2005, at which time Iran's position on its nuclear program hardened. Similarly, there is insufficient international support to grant Iran membership in the World Trade Organization (WTO) until there is progress on the nuclear issue. Iran first attempted to apply to join the WTO in July 1996. On 22 occasions after that, representatives of the Clinton and then the George W. Bush Administration blocked Iran from applying (applications must be by consensus of the 148 members). As discussed above, as part of an effort to assist the EU-3 nuclear talks with Iran, at a WTO meeting in May 2005, no opposition to Iran's application was registered, and Iran formally began accession talks.

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<sup>45</sup> During the active period of talks, which began in December 2002, there were working groups focused not only on the TCA terms and proliferation issues but also on Iran's human rights record, Iran's efforts to derail the Middle East peace process, Iranian-sponsored terrorism, counter-narcotics, refugees, migration issues, and the Iranian opposition PMOI.

Earlier, during the 1990s, EU countries maintained a policy of “critical dialogue” with Iran, and the EU and Japan refused to join the 1995 U.S. trade and investment ban on Iran. The European dialogue with Iran was suspended in April 1997 in response to the German terrorism trial (“Mykonos trial”) that found high-level Iranian involvement in killing Iranian dissidents in Germany, but resumed in May 1998 during Khatemi’s presidency. In the 1990s, European and Japanese creditors—over U.S. objections—rescheduled about \$16 billion in Iranian debt. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling \$500 million in bonds to European banks. (A provision of H.R. 6296 would make sanctionable under ISA the purchase of Iranian sovereign debt.)

## World Bank Loans

The July 27, 2010, EU measures narrowed substantially the prior differences between the EU and the United States over international lending to Iran. As noted above, the United States representative to international financial institutions is required to vote against international lending, but that vote, although weighted, is not sufficient to block international lending. In 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of \$460 million for electricity, health, and irrigation projects, but the loans were approved. To block that lending, the FY1994-FY1996 foreign aid appropriations (P.L. 103-87, P.L. 103-306, and P.L. 104-107) cut the amount appropriated for the U.S. contribution to the bank by the amount of those loans. The legislation contributed to a temporary halt in new bank lending to Iran. (In the 111<sup>th</sup> Congress, a provision of H.R. 6296—Title VII—cut off U.S. contributions to the World Bank, International Finance Corp., and the Multilateral Investment Guarantee Corp. if the World Bank approves a new Country Assistance Strategy for Iran or makes a loan to Iran.)

During 1999-2005, Iran’s moderating image had led the World Bank to consider new loans over U.S. opposition. In May 2000, the United States’ allies outvoted the United States to approve \$232 million in loans for health and sewage projects. During April 2003-May 2005, a total of \$725 million in loans were approved for environmental management, housing reform, water and sanitation projects, and land management projects, in addition to \$400 million in loans for earthquake relief.

**Table 3. Comparison Between U.S., U.N., and EU and Allied Country Sanctions**

U.S. Sanctions	U.N. Sanctions	Implementation by EU and Some Allied Countries
<b>General Observation:</b> Most sweeping sanctions on Iran of virtually any country in the world	Increasingly sweeping, but still intended to primarily target Iran’s nuclear and other WMD programs. No mandatory sanctions on Iran’s energy sector.	EU abides by all U.N. sanctions on Iran, and new sanctions imposed by EU countries since July 27, 2010, closely aligns EU sanctions with those of the U.S.  Japan and South Korean sanctions also increasingly extensive.

U.S. Sanctions	U.N. Sanctions	Implementation by EU and Some Allied Countries
<p><b>Ban on U.S. Trade with and Investment in Iran:</b></p> <p>Executive Order 12959 bans (with limited exceptions) U.S. firms from exporting to Iran, importing from Iran, or investing in Iran.</p> <p>There is an exemption for sales to Iran of food and medical products, but no trade financing or financing guarantees are permitted.</p>	<p>U.N. sanctions do not ban civilian trade with Iran or general civilian sector investment in Iran. Nor do U.N. sanctions mandate restrictions on provision of trade financing or financing guarantees by national export credit guarantee agencies.</p>	<p>No general EU ban on trade in civilian goods with Iran but, as a consequence of the January 23, 2012, EU move to ban purchases of oil from Iran and freeze assets of its Central Bank, EU sanctions are now nearly as extensive as the United States. EU trade with Iran restricted by Jan. 23, 2012, EU freeze on Tidewater port operator assets, complicating offloading of many goods at Iranian ports.</p> <p>EU, Japan, and South Korea measures ban “medium and long term” trade financing and financing guarantees. Short term financing is permitted, but there is a call for EU states to “exercise restraint” on that.</p>
<p><b>Sanctions on Foreign Firms that Do Business With Iran’s Energy Sector:</b></p> <p>The Iran Sanctions Act, P.L. 104-172 (as amended most recently by the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, P.L. 111-195)—and as enhanced by Executive Order 13590—mandates specified sanctions on foreign firms that invest threshold amounts in Iran’s energy Sector or that sell certain threshold amounts of refined petroleum, or equipment or services for oil and gas development, refinery or petrochemical plant expansion or maintenance, or production or importation of gasoline.</p>	<p>No U.N. equivalent exists. However, preambular language in Resolution 1929 “not[es] the potential connection between Iran’s revenues derived from its energy sector and the funding of Iran’s proliferation-sensitive nuclear activities.” This wording is interpreted by most observers as providing U.N. support for countries who want to ban their companies from investing in Iran’s energy sector.</p>	<p>EU sanctions prohibiting oil purchases from Iran, prohibiting EU companies from financing energy sector projects in Iran, and banning trade with Iran in petrochemicals and other energy sector equipment now approximate those of the United States.</p> <p>Japan and South Korean measures ban new energy projects in Iran and call for restraint on ongoing projects. South Korean in December 2011 cautioned its firms not to sell energy or petrochemical equipment to Iran.</p>
<p><b>Ban on Foreign Assistance:</b></p> <p>U.S. foreign assistance to Iran—other than purely humanitarian aid—is banned under §620A of the Foreign Assistance Act. That section bans U.S. assistance to countries on the U.S. list of “state sponsors of terrorism.” Iran has been on this “terrorism list” since January 1984. Iran is also routinely denied direct U.S. foreign aid under the annual foreign operations appropriations acts (most recently in §7007 of division H of P.L. 111-8).</p>	<p>No U.N. equivalent</p>	<p>EU measures of July 27, 2010, ban grants, aid, and concessional loans to Iran. Also prohibit financing of enterprises involved in Iran’s energy sector.</p> <p>Japan and South Korea measures do not specifically ban aid or lending to Iran, but no such lending by these countries is under way.</p>

U.S. Sanctions	U.N. Sanctions	Implementation by EU and Some Allied Countries
<p><b>Ban on Arms Exports to Iran:</b></p> <p>Because Iran is on the “terrorism list,” it is ineligible for U.S. arms exports pursuant to §40 of the Arms Export Control Act (AECA, P.L. 95-92). The International Trafficking in Arms Regulations (ITAR, 22 CFR Part 126.1) also cite the President’s authority to control arms exports, and to comply with U.N. Security Council Resolutions as a justification to ban arms exports and imports.</p>	<p>Resolution 1929 (operative paragraph 8) bans all U.N. member states from selling or supplying to Iran major weapons systems, including tanks, armored vehicles, combat aircraft, warships, and most missile systems, or related spare parts or advisory services for such weapons systems.</p>	<p>EU sanctions include a comprehensive ban on sale to Iran of all types of military equipment, not just major combat systems.</p> <p>No similar Japan and South Korean measures announced, but neither has exported arms to Iran.</p>
<p><b>Restriction on Exports to Iran of “Dual Use Items”:</b></p> <p>Primarily under §6(j) of the Export Administration Act (P.L. 96-72) and §38 of the Arms Export Control Act, there is a denial of license applications to sell Iran goods that could have military applications.</p>	<p>The U.N. Resolutions on Iran, cumulatively, ban the export of almost all dual-use items to Iran.</p>	<p>EU bans the sales of dual use items to Iran, in line with U.N. resolutions.</p> <p>Japan announced full adherence to strict export control regimes when evaluating sales to Iran. South Korea has adopted similar policies.</p>
<p><b>Sanctions Against International Lending to Iran:</b></p> <p>Under §1621 of the International Financial Institutions Act (P.L. 95-118), U.S. representatives to international financial institutions, such as the World Bank, are required to vote against loans to Iran by those institutions.</p>	<p>Resolution 1747 (oper. paragraph 7) requests, but does not mandate, that countries and international financial institutions refrain from making grants or loans to Iran, except for development and humanitarian purposes.</p>	<p>The July 27, 2010, measures prohibit EU members from providing grants, aid, and concessional loans to Iran, including through international financial institutions.</p> <p>No specific similar Japan or South Korea measures announced.</p>
<p><b>Sanctions Against Foreign Firms that Sell Weapons of Mass Destruction-Related Technology to Iran:</b></p> <p>Several laws and regulations, including the Iran-Syria North Korea Nonproliferation Act (P.L. 106-178), the Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) and Executive Order 13382 provide for sanctions against entities, Iranian or otherwise, that are determined to be involved in or supplying Iran’s WMD programs (asset freezing, ban on transaction with the entity).</p>	<p>Resolution 1737 (oper. paragraph 12) imposes a worldwide freeze on the assets and property of Iranian entities named in an Annex to the Resolution. Each subsequent Resolution has expanded the list of Iranian entities subject to these sanctions.</p>	<p>The EU measures imposed July 27, 2010, commit the EU to freezing the assets of entities named in the U.N. resolutions, as well as numerous other named Iranian entities.</p> <p>Japan and South Korea froze assets of U.N.-sanctioned entities.</p>

U.S. Sanctions	U.N. Sanctions	Implementation by EU and Some Allied Countries
<p><b>Ban on Transactions With Terrorism Supporting Entities:</b></p> <p>Executive Order 13224 bans transactions with entities determined by the Administration to be supporting international terrorism. Numerous entities, including some of Iranian origin, have been so designated.</p>	<p>No direct equivalent</p> <p>The U.N. Resolutions against Iran are intended primarily to slow or halt Iran's nuclear and other WMD programs. However, Resolution 1747 (oper. paragraph 5) bans Iran from exporting any arms—a provision widely interpreted as trying to reduce Iran's material support to groups such as Lebanese Hizbollah, Hamas, Shiite militias in Iraq, and insurgents in Afghanistan.</p>	<p>No direct equivalent, but many of the Iranian entities named as blocked by the EU, Japan, and South Korea overlap or complement Iranian entities named as terrorism supporting by the United States.</p>
<p><b>Travel Ban on Named Iranians:</b></p> <p>The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (P.L. 111-195) provides for a prohibition on travel to the U.S., blocking of U.S.-based property, and ban on transactions with Iranians determined to be involved in serious human rights abuses against Iranians since the June 12, 2009, presidential election there.</p>	<p>Resolution 1803 imposed a binding ban on international travel by several Iranians named in an Annex to the Resolution. Resolution 1929 extended that ban to additional Iranians, and forty Iranians are now subject to the ban. However, the Iranians subject to the travel ban are so subjected because of their involvement in Iran's WMD programs, not because of involvement in human rights abuses.</p>	<p>The EU sanctions announced July 27, 2010, contains an Annex of named Iranians subject to a ban on travel to the EU countries. An additional 60+ Iranians involved in human rights abuses were subjected to EU sanctions since.</p> <p>Japan and South Korea have announced bans on named Iranians.</p>
<p><b>Restrictions on Iranian Shipping:</b></p> <p>Under Executive Order 13382, the U.S. Treasury Department has named Islamic Republic of Iran Shipping Lines and several affiliated entities as entities whose U.S.-based property is to be frozen.</p>	<p>Resolution 1803 and 1929 authorize countries to inspect cargoes carried by Iran Air and Islamic Republic of Iran Shipping Lines (IRISL)—or any ships in national or international waters—if there is an indication that the shipments include goods whose export to Iran is banned.</p>	<p>The EU measures announced July 27, 2010, bans Iran Air Cargo from access to EU airports. The measures also freeze the EU-based assets of IRISL and its affiliates. Insurance and re-insurance for Iranian firms is banned.</p> <p>Japan and South Korean measures take similar actions against IRISL and Iran Air.</p>

U.S. Sanctions	U.N. Sanctions	Implementation by EU and Some Allied Countries
<p><b>Banking Sanctions:</b></p> <p>During 2006-2011, several Iranian banks have been named as proliferation or terrorism supporting entities under Executive Orders 13382 and 13224, respectively (see list at end of paper).</p> <p>CISADA prohibits banking relationships with U.S. banks for any foreign bank that conducts transactions with Iran's Revolutionary Guard or with Iranian entities sanctioned under the various U.N. resolutions.</p> <p>November 21, 2011: Treasury Department names Iranian financial sector as a jurisdiction of primary money laundering concern.</p> <p>December 31, 2011: President Obama signs Defense Authorization (P.L. 112-81) preventing U.S. accounts with foreign banks that process transactions with Iran's Central Bank.</p>	<p>No direct equivalent</p> <p>However, two Iranian banks are named as sanctioned entities under the U.N. Security Council resolutions.</p>	<p>The EU freeze on Iran Central Bank assets announced January 23, 2012, closely align EU sanctions on this issue with those of the United States. In July 2012, the EU prohibited the opening in EU countries of any new branches or offices of Iranian banks. The measures also prohibit EU banks from offices or accounts in Iran. In addition, the transfer of funds exceeding 40,000 Euros (about \$50,000) between and Iranian bank and an EU bank require prior authorization by EU bank regulators.</p> <p>November 21, 2011: Britain and Canada bar their banks from any transactions with Iran Central Bank. EU to consider a ban on dealings with Iran Central Bank at January 30, 2012, meeting.</p> <p>February 2012: Brussels-based SWIFT says it will expel Iranian banks from the electronic payment transfer system if EU demands.</p> <p>Japan and South Korea measures similar to the 2010 EU sanctions, with South Korea adhering to the same 40,000 Euro authorization requirement. Japan and S. Korea froze the assets of 15 Iranian banks; South Korea targeted Bank Mellat for freeze.</p>
<p>No direct equivalent, although, as discussed above, U.S. proliferation laws provide for sanctions against foreign entities that help Iran with its nuclear and ballistic missile programs.</p>	<p>Resolution 1929 (oper. paragraph 7) prohibits Iran from acquiring an interest in any country involving uranium mining, production, or use of nuclear materials, or technology related to nuclear-capable ballistic missiles.</p> <p>Operative Paragraph 9 of Resolution 1929 prohibits Iran from undertaking "any activity" related to ballistic missiles capable of delivering a nuclear weapon.</p>	<p>EU measures on July 27, 2010, require adherence to this provision of Resolution 1929.</p>

## Effects of Sanctions on Iran

Assessing the effectiveness of U.S. and international sanctions depends upon which goals are being examined. U.S. officials acknowledge that the sanctions have not achieved the core goal of altering Iran's commitment to its nuclear program. However, most experts increasingly agree that

the sanctions—particularly following the U.S. and EU moves against Iran’s Central Bank and its oil exports—are accomplishing the subordinate goal of weakening Iran’s economy. There has also been domestic pressure on the regime to reform, but at least some of this sentiment is caused by political factors not necessarily related to Iran’s economy or to international sanctions.

## **Effect on Nuclear Negotiations**

There is a consensus that U.S. and U.N. sanctions have not, to date, accomplished their core strategic objective of compelling Iran to agree to verifiably limit Iran’s nuclear development to purely peaceful purposes. This assessment was included in testimony by the Director of National Intelligence James Clapper before the Senate Intelligence Committee on January 31, 2012 and before the Senate Armed Services Committee on February 16, 2012.

U.S. officials, including President Obama in March 2012, have said that the effects of sanctions on the Iranian economy are sufficiently strong that Iranian leaders might yet reassess their negotiating stance. In nuclear talks in December 2010 and January 2011, Iran did not agree to curbs on its enrichment of uranium, the core U.S. demand. In August 2011, with Iranian leaders beginning to talk openly about the harm sanctions are doing to Iran’s economy, Iranian officials indicated interest in Russian proposals to restart talks and indicated a willingness to allow closer IAEA “supervision” or inspections of Iran’s nuclear program. President Ahmadinejad, during his September 2011 U.N. General Assembly visit to the United States, said Iran might accept a proposal to cap the level of its uranium enrichment at 5%.

As sanctions increased in late 2011, senior Iranian figures—nuclear negotiator Sayed Jallili and Foreign Minister Ali Akbar Salehi—said they would respond positively to an October 2011 EU (foreign policy chief Catherine Ashton) letter proposing new P5+1 talks. A formal Iranian response was received by Ashton on February 15, 2012, and she announced on March 6, 2012 that new talks have been accepted by the P5+1 in principle. No date was announced for the talks. Some believe that Iran seeks to derail full implementation of the EU oil embargo—and other sanctions—by expressing openness to dialogue and potential compromise. Others see Iran as using talks to play for time to further develop its nuclear program.

## **Counter-Proliferation Effects**

A related issue is whether the cumulative sanctions have, in and of themselves, added bottlenecks to Iran’s nuclear efforts by making it difficult for Iran to import needed materials or skills. In a speech on November 22, 2011, National Security Adviser Tom Donilon said:

The effect of these sanctions has been clear. Coupled with mistakes and difficulties in Iran, they have slowed Iran’s nuclear efforts. Sanctions and export control efforts have made it more difficult and costly for Iran to acquire key materials and equipment for its enrichment program, including items that Iran cannot produce itself.<sup>46</sup>

Others, however, say that there is not clear evidence that sanctions are slowing Iran’s program. International Atomic Energy Agency (IAEA) reports have consistently said that Iran’s stockpile of low-enriched uranium continues to expand, as do its holdings of 20% enriched uranium. Iran is

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<sup>46</sup> Speech by National Security Adviser Tom Donilon at the Brookings Institution. November 22, 2011.

now enriching uranium to 20% at its hardened facility at Fordow, near Qom, according to the February 24, 2012 IAEA report.<sup>47</sup>

## General Political Effects

The international community has hoped that international sanctions might widen splits in Iran's leadership, and perhaps strengthen those in Iran who might argue that Iran's nuclear program is carrying too high a cost. There are growing indications of splits in the Iranian leadership—particularly between President Ahmadinejad and the Supreme Leader—to the point at which there has been open discussion in Iran's parliament since June 2011 of impeaching Ahmadinejad. In February 2012, the Majles summoned Ahmadinejad to answer questions about corruption and economic policy, the first time it has summoned a president since the Islamic Republic was founded in 1979. In October 2011, the Supreme Leader raised the possibility of amending Iran's constitution to eliminate the post of President altogether, and replace it with a parliamentary system in which the *Majles* selects a Prime Minister. Factions loyal to Ahmadinejad and to the Supreme Leaders, although all are hardline, competed against each other in March 2, 2012, Majles elections. Returns suggest that supporters of the Supreme Leader won about 75% of the 290 seats, putting Ahmadinejad and his allies in a weak position for his last year in office. However, these splits do not appear to be driven primarily by differences over how to react to international sanctions.

One U.S. intelligence official told journalists in January 2012 that the Administration believes sanctions could also be used to undermine the Iranian regime outright, although that is not the widely stated goal of U.S. and international sanctions.<sup>48</sup> There is no firm evidence that the sanctions are accomplishing that result; the opposition Green movement remained largely absent from the streets in 2011, as it was in 2010. It returned to the streets briefly on February 14, 2012.

Many Iranians appear to blame the regime for bringing on sanctions by refusing to compromise on the nuclear program, but many blame the United States and its partners for imposing sanctions that hurt the population perhaps more than they do the regime. Iran's population, whether opposed to or supportive of the government now, have lived through deprivation during the 1980-88 Iran-Iraq War, and it is not clear that even more dire economic conditions will increase political opposition.

The regime also closely watches the attitudes and opinions of Iran's influential merchant class ("*bazaaris*"). The *bazaaris*' shift against the former Shah of Iran was key to his downfall. The bazaaris have tended to support the current regime as a provider of economic stability, but they could shift if the economy declines even more sharply. There are anecdotal indications of *bazaari* complaints about the regime's inability to parry ever-increasing international sanctions, but no recent organized opposition has, to date, emanated from this constituency.

Labor is also a key interest group. Labor strikes, particularly in the oil sector, were also key to the 1979 downfall of the Shah's rule, and are closely watched by the regime for signs of spreading or drawing in other groups to their cause. There were anecdotal reports of labor unrest in 2011,

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<sup>47</sup> [http://www.isisnucleariran.org/assets/pdf/IAEA\\_Iran\\_Report\\_24February2012.pdf](http://www.isisnucleariran.org/assets/pdf/IAEA_Iran_Report_24February2012.pdf)

<sup>48</sup> Karen DeYoung and Scott Wilson. "Public Ire Is One Goal of Sanctions Against Iran, U.S. Official Says." *Washington Post*, January 11, 2012.



including strikes for overdue pay, but these strikes did not appear to have overtly political objectives.

## Economic Effects

The accumulation of international, bilateral, and multilateral sanctions is beginning to take a dramatic toll on Iran's economy. Iranian officials now openly acknowledge that sanctions are hurting Iran's economy: President Ahmadinejad told Iran's *Majles* (parliament) on November 1, 2011, that international sanctions are causing serious problems for Iran's banking sector. Ahmadinejad acknowledged to the *Majles* in late December 2011 that Iran is shut out of the international banking system. Among other specifics:

- The EU oil embargo and the restrictions on transactions with Iran's Central Bank have had significant adverse effects on Iran, even though the oil embargo will not be fully implemented until July 1, 2012. These sanctions have the potential to cripple the country economically. Oil sales account for 50% to 70% of government revenue. Based on initial estimates from the International Energy Agency in February 2012, Iran has already started to lose oil sales—to customers in the EU, China, Japan, and South Korea—and the IEA cites industry estimates that it could ultimately lose 1 million barrels per day in sales.<sup>49</sup> That is about 40% of its 2.5 million barrels per day (mbd). Iran has begun to store some of the unsold oil on tankers in the Persian Gulf, and other Iranian tankers are reported to be unable to offload their oil because of difficulty obtaining insurance. Further revenue losses on a per-barrel basis are possible if remaining customers, such as China, force Iran to discount each barrel. The sales shortfalls—unless oil prices escalate more dramatically—will likely hamper Iran's ability to fully fund its social spending obligations and defense and WMD programs.
- Iran appears to be so concerned about a loss of sales due to customer purchase reductions and payments difficulties that, on February 29, 2012, its Central Bank governor said Iran is willing to accept payment for oil in gold as well as the national currencies of customer countries. Many of its oil transactions reportedly are now conducted on a barter basis, with Iran providing oil in exchange for wheat and consumer imports. On the other hand, some Iranian importers have found ways of working around payments difficulties, such as using new Europe and Asia based traders who can finance their own operations.<sup>50</sup>
- These payments difficulties—and Iran's acceptance of barter arrangements and payment mechanisms other than hard currency—have left Iran's Central Bank short of hard currency and caused a reduction in the value of Iran's currency, the rial. The effects of existing sanctions, and the worry about further sanctions, have reportedly driven the value of the rial down 40% since early December 2011, to a level of about 20,000 to the dollar as of late January, 2012. Realizing that the public may interpret the falling rial as a loss of control or prestige, in January 2012 the regime reportedly threatened punishment against any money trader who sells the currency at less than 14,000 to the dollar. It also has raised interest rates

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<sup>49</sup> Christopher Johnson. "Iran Sanctions Already Hitting Oil Trade Flows: IEA." Reuters, February 10, 2012.

<sup>50</sup> Valerie Parent and Michael Hogan. "Iran Paying for Grain With Gold, Oil: Traders" Reuters, February 9, 2012.

- to try to prop up the value of the rial. On the other hand, some believe that the regime is not affected by the currency fall because it still has access to hard currency and can use it to buy rials—or services denominated in rials—cheaply.
- These difficulties—shipping, currency devaluation, and others—have driven up the costs to the Iranian trading community by an estimated 40%.<sup>51</sup> Overall inflation appears to be increasing, causing public dissatisfaction. Some merchants have reportedly gone out of business in late 2011 and early 2012 because of the economic conditions, and have had to lay off workers. Other press reports say that many Iranians are stockpiling staple goods such as rice and cooking oil, and buying as much hard currency as possible, anticipating further economic deterioration.
  - Still, Iran might be able to cope with a loss of oil sales and other difficulties. World oil prices have increased since the beginning of 2012—and some of the price movements are due to the international tensions with Iran. The increase in oil prices—above \$100 per barrel in early March 2012—mitigates some of the effects of international sanctions. Iran is estimated to have earned about \$500 billion in total revenue from oil during 2006-2011.
  - Beyond the issue of the cost of imported goods aside, the Treasury Department's designations of affiliates and ships belong to Islamic Republic of Iran Shipping Lines (IRISL) reportedly are harming Iran's ability to ship goods at all, and has further raised the prices of goods to Iranian import-export dealers. Some ships have been impounded by various countries for nonpayment of debts due on them. A substantial portion of the Iranian economy depends on import-export activity, so the damage to the merchant community from international sanctions has been considerable. Further effects are likely in light of the EU's freeze on the assets of Tidewater Middle East Company in January 2012; the firm operates many of Iran's ports and ports in neighboring countries that service ships headed to Iran.

### **Foreign Companies Exiting the Iran Market**

The sanctions have caused Iran to be viewed by international firms as “radioactive,” causing many international firms to exit the Iranian market even if doing so is not required by any sanction. Neither the U.S. ban on trade and investment with Iran, nor U.N. sanctions, nor European Union sanctions on Iran, ban trade with Iran in all civilian goods. Many experts believe that, over time, the efficiency and output of Iran's economy will decline as foreign expertise departs and Iran attracts alternative investment from or imports goods from less capable foreign companies. Examples of major non-U.S. companies discontinuing business with Iran include the following:

- ABB of Switzerland said in January 2010 it would cease doing business with Iran.
- Siemens of Germany was active in the Iran telecommunications infrastructure market, but announced in February 2010 that it would cease pursuing business in Iran. Finmeccanica, a defense and transportation conglomerate of Italy, followed suit, as did Thyssen-Krupp, a German steelmaker.

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<sup>51</sup> “Iran's Gateway in Dubai Highlights Sanctions Bite.” *Associated Press*, February 1, 2011.

- Germany's Daimler (Mercedes-Benz maker) said in April 2010 it would freeze planned exports to Iran of cars and trucks.
- In August-September 2010, Japan and South Korea announced that their automakers Toyota, Hyundai, and Kia Motors would cease selling automobiles to Iran.
- Attorneys for BNP Paribas of France told the author in July 2011 that, as of 2007, the firm was pursuing no new business in Iran, although it was fulfilling existing obligations in that market.
- On June 30, 2011, according to press reports, the Danish shipping giant Maersk told Iran that it would no longer operate out of Iran's three largest ports. The firm's decision reportedly was based on the U.S. announcement on June 23, 2011, that it was sanctioning the operator of those ports, Tidewater Middle East Co., as a proliferation entity under Executive Order 13382. The pullout of Maersk will likely further raise shipping costs.

### **Foreign Firms Reportedly Remaining in the Iran Market**

Some firms continue to run the financial risk of doing business with Iran. Some of the well-known firms that continue to do so include Alcatel-Lucent of France; Bank of Tokyo-Mitsubishi UFJ; Bosch of Germany; Canon of Japan; Fiat SPA of Italy; Ericsson of Sweden; ING Group of the Netherlands; Mercedes of Germany; Renault of France; Samsung of South Korea; Sony of Japan; Volkswagen of Germany; Volvo of Sweden; and numerous others. Some of the foreign firms that trade with Iran, such as Mitsui and Co. of Japan, Alstom of France, and Schneider Electric of France, are discussed in the March 7, 2010, *New York Times* article on foreign firms that do business with Iran and also receive U.S. contracts or financing. The *Times* article does not claim that these firms have violated any U.S. sanctions laws.

Other questions have arisen over how U.S. sanctions might apply to business with foreign firms that Iran might acquire a full or partial interest in. Such firms include Daewoo Electronics of South Korea, where an Iranian firm—Entekhab Industrial Corp.—is a leading bidder to take over that firm. Another example is Adabank of Turkey, which reportedly might be sold to Iran.

### **Subsidy Phase-Out Issue**

A larger issue, which may have been affected by sanctions, but perhaps positively for Iran, is a long-delayed plan to phase out state subsidies on staple goods such as gasoline and some foods over the next five years. International sanctions might have helped Ahmadinejad convince the Majles (parliament) that passing the subsidy reduction plan was urgent if Iran was to parry the effects of burgeoning international sanctions. After several delays, the program started on December 19, 2010, with a reduction in subsidies of gasoline and bread. The price of traditional bread immediately escalated to 40 cents, from 15 cents, when the program began. Gasoline prices now run on a tiered system in which a small increment is available at the subsidized price of about 1.60 per gallon, but amounts above that threshold are available only at a price of about

\$2.60 per gallon, close to the world price. The lower and lower middle class is being compensated with direct cash payments of about \$40 per month.<sup>52</sup>

The IMF report of August 2011, discussed above, said that the phase-out removed about \$60 billion in costs from Iran's budget. The report also credits the regime with successfully containing initial impact of the rise in domestic energy prices on inflation. However, some Iranian economists say that 63 million Iranians qualify for the compensatory cash payments and that this costs the government nearly all of the savings incurred from the subsidy phase-out. Still, political benefits are accruing to the regime in the rural areas, where families are large and the subsidy offset brings in substantial monthly income. When the plan first went into effect in December 2010, some Iranian truckers simply stopped working on the grounds that their work was no longer profitable, because the government limited the amount of extra fees that can be charged to make up for the increase in costs.

## Effect on the Development of the Energy Sector

As noted throughout, the U.S. objective has been to focus sanctions against Iran's energy sector, considered the engine of Iran's economy currently and in the future. There are clear indications that the sanctions—coupled with the overall sense that Iran is isolated from the international community—are reducing Iran's future ability to maintain current levels of oil production, or to develop its natural gas sector. U.S. officials in 2011 say that Iran has lost lose to \$60 billion in investment as numerous major firms have either announced pullouts from some of their Iran projects, declined to make further investments, or resold their investments to other companies. Treasury official David Cohen, mentioned above, testified in October 2011 that sanctions are likely to deprive Iran of an estimated \$14 billion in oil revenue from 2011 to 2016, although that is a small percentage of the estimated \$500 billion in total revenue that Iran might earn during that period. A worldwide embargo on Iranian exports of oil, or even a potentially more limited embargo imposed by like-minded countries, would sharply reduce that revenue figure, depending on how comprehensive the embargo is.

Observers at key energy fields in Iran say there is little evidence of foreign investment activity and little new development activity sighted, including at the large South Pars gas field that Iran has focused on for at least 10 years. It is highly unlikely that Iran will attract the \$145 billion in new investment by 2018 that Iran's deputy Oil Minister said in November 2008 that Iran needs. Similar estimates come from independent Iranian energy experts, who say that, as of October 2011, the sector needs \$130 billion in investment from 2011 until 2020.<sup>53</sup> A Government Accountability Office (GAO) report of August 3, 2011, contains tables that discuss those firms that have discontinued commercial activity in Iran's energy sector, as well as those still operating and investing.<sup>54</sup> **Table 3** shows international firms that have invested or remain invested in Iran's energy sector. Some of them have not been determined to have violated ISA and may be under investigation by the State Department. As discussed above, some firms have been sanctioned, and others have avoided sanctions either through Administration waivers or invocation of the "special rule."

<sup>52</sup> Erdbink, Thomas. "Leaving Iran's Middle Class Behind." *Washington Post*, November 7, 2010.

<sup>53</sup> Khajepour presentation at CSIS. Op. cit.

<sup>54</sup> GAO. GAO-11-855R. Firms Reported in Open Sources As Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors. August 3, 2011.

Possibly or partly as a result of the relative lack of new investment, Iran's oil production has remained relatively steady at about 4.1 million barrels per day (mbd) since the mid-2000s, despite government efforts to expand production. Production is projected to fall to about 3.3 mbd by 2015.<sup>55</sup> That estimate is somewhat less than the 25% decline over the next five years (by 2016) that the GAO August 3, 2011, report, quoting Oil and Gas Journal, estimates is possible. Others maintain that Iran's gas sector can compensate for declining oil exports, although Iran has used its gas development primarily to reinject into its oil fields rather than to export. Iran exports about 3.6 trillion cubic feet of gas, primarily to Turkey, but also to Armenia. Some Members of Congress believe that ISA would have been even more effective in injuring Iran's energy sector if successive administrations had imposed ISA sanctions more aggressively.

The EU sanctions apparently have also derailed a BP-NIOC joint venture in the Rhum gas field, 200 miles off the coast of Scotland. BP announced in November 2010 that it would stop production there to ensure compliance with the EU sanctions. In addition, partners in the Trans-Adriatic Pipeline (TAP) said in September 2010 that the pipeline would not be used to transport Iranian gas to Europe.

Some believed that a key to further harming Iran's energy sector is to persuade remaining oil services firms to pull out of Iran. In press articles and in the December 1, 2010, House Foreign Affairs Committee hearing discussed above, the large oil services firm Schlumberger, which is incorporated in the Netherlands Antilles, has said it will wind down its business with Iran. However, press reports citing company documents say all contracts with Iran might not be terminated until at least 2013.<sup>56</sup> Persuading other oil services firms to exit Iran was the intent of Executive Order 13590 of November 21, 2011, which makes such activity sanctionable.

### Concerns About "Backfill"

There has been a concern that some of the investment void might be "backfilled," at least partly, by Asian firms such as those from China, Malaysia, Vietnam, and countries in Eastern Europe. However, many such deals are said to be in preliminary stages, and clear examples of "backfilling" are few, to date. Most of the companies that might backfill abandoned projects are perceived as not being as technically capable as those that have withdrawn from Iran.

To try to mitigate the trend in Iran has been that the "backfill" is being conducted by domestic companies, particularly those controlled or linked to the Revolutionary Guard (IRGC). Deals with Polish and Russian firms fell apart in late 2011, and their projects reportedly were taken over by domestic Iranian firms. Still, backfill by Iranian firms has potential pitfalls because foreign firms are reluctant to partner with IRGC firms, which are increasingly targeted by international sanctions. In July 2010, after the enactment of Resolution 1929 and CISADA, the Revolutionary Guard's main construction affiliate, Khatem ol-Anbiya, announced it had withdrawn from developing Phases 15 and 16 of South Pars—a project worth \$2 billion.<sup>57</sup> Khatem ol-Anbiya took over that project in 2006 when Norway's Kvaerner pulled out of it.

<sup>55</sup> <http://online.wsj.com/article/SB10001424052748704569204575328851816763476.html>.

<sup>56</sup> Stockman, Farah. "Oil Firm Says It Will Withdraw From Iran." *Boston Globe*, November 12, 2010.

<sup>57</sup> "Iran Revolutionary Guards Pull Out of Gas Deal Over Sanctions." *Platts*, July 19, 2010.

**Table 4. Post-1999 Major Investments/Major Development Projects in Iran's Energy Sector**

Date	Field/Project	Company(ies)/Status (If Known)	Value	Output/Goal
Feb. 1999	<b>Doroud (oil)</b> (Energy Information Agency, Department of Energy, August 2006.)  Total and ENI exempted from sanctions on September 30 because of pledge to exit Iran market	Total (France)/ENI (Italy)	\$1 billion	205,000 bpd
April 1999	<b>Balal (oil)</b> (“Balal Field Development in Iran Completed,” <i>World Market Research Centre</i> , May 17, 2004.)	Total/ Bow Valley (Canada)/ENI	\$300 million	40,000 bpd
Nov. 1999	<b>Soroush and Nowruz (oil)</b> (“News in Brief: Iran.” <i>Middle East Economic Digest</i> , (MEED) January 24, 2003.)  Royal Dutch exempted from sanctions on 9/30 because of pledge to exit Iran market	Royal Dutch Shell (Netherlands)/Japex (Japan)	\$800 million	190,000 bpd
April 2000	<b>Anaran bloc (oil)</b> (MEED Special Report, December 16, 2005, pp. 48-50.)	Norsk Hydro and Statoil (Norway) and Gazprom and Lukoil (Russia) No production to date; Statoil and Norsk have left project.	\$105 million	65,000
July 2000	<b>Phase 4 and 5, South Pars (gas)</b> ( <i>Petroleum Economist</i> , December 1, 2004.)  ENI exempted 9/30 based on pledge to exit Iran market	ENI  Gas onstream as of Dec. 2004	\$1.9 billion	2 billion cu. ft./day (cfd)
March 2001	<b>Caspian Sea oil exploration—</b> construction of submersible drilling rig for Iranian partner  (IPR Strategic Business Information Database, March 11, 2001.)	GVA Consultants (Sweden)	\$225 million	NA
June 2001	<b>Darkhovin (oil)</b> (“Darkhovin Production Doubles.” <i>Gulf Daily News</i> , May 1, 2008.) ENI told CRS in April 2010 it would close out all Iran operations by 2013.  ENI exempted from sanctions on 9/30, as discussed above	ENI  Field in production	\$1 billion	100,000 bpd
May 2002	<b>Masjid-e-Soleyman (oil)</b> (“CNPC Gains Upstream Foothold.” <i>MEED</i> , September 3, 2004.)	Sheer Energy (Canada)/China National Petroleum Company (CNPC). Local partner is Naftgaran Engineering	\$80 million	25,000 bpd

Date	Field/Project	Company(ies)/Status (If Known)	Value	Output/Goal
Sept. 2002	<b>Phase 9 + 10, South Pars (gas)</b>  ("OIEC Surpasses South Korean Company in South Pars." IPR Strategic Business Information Database, November 15, 2004.)	LG Engineering and Construction Corp. (now known as GS Engineering and Construction Corp., South Korea)  On stream as of early 2009	\$1.6 billion	2 billion cfd
October 2002	<b>Phase 6, 7, 8, South Pars (gas)</b>  (Source: Statoil, May 2011)  Field began producing late 2008; operational control handed to NIOC in 2009. Statoil exempted from sanctions on 9/30/2010 because Statoil pledged to exit Iran market.	Statoil (Norway)	\$750 million	3 billion cfd
January 2004	<b>Azadegan (oil)</b>  ("Japan Mulls Azadegan Options." APS Review Oil Market Trends, November 27, 2006.)  October 15, 2010: Inpex announced it would exit the project by selling its stake; "special rule" exempting it from ISA investigation invoked November 17, 2010.	Inpex (Japan) 10% stake. CNPC agreed to develop "north Azadegan" in Jan. 2009	\$200 million (Inpex stake); China \$1.76 billion	260,000 bpd
August 2004	<b>Tusan Block</b>  Oil found in block in Feb. 2009, but not in commercial quantity, according to the firm. ("Iran-Petrobras Operations." APS Review Gas Market Trends, April 6, 2009; "Brazil's Petrobras Sees Few Prospects for Iran Oil," ( <a href="http://www.reuters.com/article/idUSN0317110720090703">http://www.reuters.com/article/idUSN0317110720090703</a> .)	Petrobras (Brazil)	\$178 million	No production
October 2004	<b>Yadavaran (oil)</b>  Formal start of development of the field still delayed as of September 2011  ("China Curbs Iran Energy Work," Reuters, September 2, 2011)	Sinopec (China), deal finalized Dec. 9, 2007	\$2 billion	300,000 bpd
2005	<b>Saveh bloc (oil)</b>  GAO report, cited below	PTT (Thailand)	?	?
June 2006	<b>Garmsar bloc (oil)</b>  Deal finalized in June 2009  ("China's Sinopec signs a deal to develop oil block in Iran—report," Forbes, 20 June 2009, <a href="http://www.forbes.com/feeds/afx/2006/06/20/afx2829188.html">http://www.forbes.com/feeds/afx/2006/06/20/afx2829188.html</a> .)	Sinopec (China)	\$20 million	?
July	<b>Arak Refinery expansion</b>	Sinopec (China); JGC	\$959 million	Expansion to

Date	Field/Project	Company(ies)/Status (If Known)	Value	Output/Goal
2006	(GAO reports; Fimco FZE Machinery website; <a href="http://www.fimco.org/index.php?option=com_content&amp;task=view&amp;id=70&amp;Itemid=78">http://www.fimco.org/index.php?option=com_content&amp;task=view&amp;id=70&amp;Itemid=78</a> .)	(Japan). Work may have been taken over or continued by Hyundai Heavy Industries (S. Korea)	(major initial expansion; extent of Hyundai work unknown)	produce 250,000 bpd
Sept. 2006	<b>Khorramabad block (oil)</b>  Seismic data gathered, but no production is planned. (Statoil factsheet, May 2011)	Norsk Hydro and Statoil (Norway).	\$49 million	?
Dec. 2006	<b>North Pars Gas Field (offshore gas).</b> Includes gas purchases  Work crews reportedly pulled from the project in early-mid 2011. ("China Curbs Iran Energy Work" Reuters, September 2, 2011)	China National Offshore Oil Co.	\$16 billion	3.6 billion cfd
Feb. 2007	<b>LNG Tanks at Tombak Port</b>  Contract to build three LNG tanks at Tombak, 30 miles north of Assaluyeh Port.  (May not constitute "investment" as defined in pre-2010 version of ISA, because that definition did not specify LNG as "petroleum resource" of Iran.)  "Central Bank Approves \$900 Million for Iran LNG Project." Tehran Times, June 13, 2009.	Daelim (S. Korea)	\$320 million	200,000 ton capacity
Feb. 2007	<b>Phase 13, 14—South Pars (gas)</b>  Deadline to finalize as May 20, 2009, apparently not met; firms submitted revised proposals to Iran in June 2009. ( <a href="http://www.rigzone.com/news/article.asp?a_id=77040&amp;hmpn=1">http://www.rigzone.com/news/article.asp?a_id=77040&amp;hmpn=1</a> .)  State Department said on September 30, 2010, that Royal Dutch Shell and Repsol have ended negotiations with Iran and will not pursue this project any further	Royal Dutch Shell, Repsol (Spain)	\$4.3 billion	?
March 2007	<b>Esfahan refinery upgrade</b>  ("Daelim, Others to Upgrade Iran's Esfahan Refinery." <i>Chemical News and Intelligence</i> , March 19, 2007.)	Daelim (S. Korea)		NA
July 2007	<b>Phase 22, 23, 24—South Pars (gas)</b>  Pipeline to transport Iranian gas to Turkey, and on to Europe and building three power plants in Iran. Contract not finalized to date.	Turkish Petroleum Company (TPAO)	\$12. billion	2 billion cfd
Dec. 2007	<b>Golshan and Ferdows onshore and offshore gas fields and LNG plant</b>  contract modified but reaffirmed December 2008	SKS Ventures, Petrofield Subsidiary (Malaysia)	\$16 billion	3.4 billion cfd



Date	Field/Project	Company(ies)/Status (If Known)	Value	Output/Goal
2007 (unspec.)	(GAO report; Oil Daily, January 14, 2008.) <b>Jofeir Field (oil)</b> GAO report cited below. Belarusneft, a subsidiary of Belneftekhim, sanctioned under ISA on March 29, 2011. Naftiran sanctioned on September 29, 2010, for this and other activities.	Belarusneft (Belarus) under contract to Naftiran.  No production to date	\$500 million	40,000 bpd
2008	<b>Dayyer Bloc (Persian Gulf, offshore, oil)</b>  GAO report cited below	Edison (Italy)	\$44 million	?
Feb. 2008	<b>Lavan field (offshore natural gas)</b> GAO report cited below invested. PGNiG invested, but delays caused Iran to void PGNiG contract in December 2011. Project to be implemented by Iranian firms. (Fars News, December 20, 2011)	PGNiG (Polish Oil and Gas Company, Poland)	\$2 billion	
March 2008	<b>Danan Field (on-shore oil)</b> “PVEP Wins Bid to Develop Danan Field.” Iran Press TV, March 11, 2008	Petro Vietnam Exploration and Production Co. (Vietnam)	?	?
April 2008	<b>Iran’s Kish gas field</b> Includes pipeline from Iran to Oman  ( <a href="http://www.presstv.ir/detail.aspx?id=112062&amp;sectionid=351020103">http://www.presstv.ir/detail.aspx?id=112062&amp;sectionid=351020103</a> .)	Oman (co-financing of project)	\$7 billion	1 billion cfd
April 2008	<b>Moghan 2 (onshore oil and gas, Ardebil province)</b>  GAO report cited below	INA (Croatia)	\$40-\$140 million (dispute over size)	?
-	<b>Kermanshah petrochemical plant (new construction)</b>  GAO report cited below	Uhde (Germany)		300,000 metric tons/yr
January 2009	<b>“North Azadegan”</b>  (Chinadaily.com. “CNPC to Develop Azadegan Oilfield,” <a href="http://www.chinadaily.com.cn/bizchina/2009-01/16/content_7403699.htm">http://www.chinadaily.com.cn/bizchina/2009-01/16/content_7403699.htm</a> .)	CNPC (China)	\$1.75 billion	75,000 bpd
January 2009	<b>Bushehr Polymer Plants</b>  Production of polyethelene at two polymer plants in Bushehr Province  (GAO August 2011 report)	Sasol (South Africa)	?	Capacity is 1 million tons per year. Products are exported from Iran.
March 2009	<b>Phase 12 South Pars (gas)</b> —part 1. Incl. LNG terminal construction and Farzad-B natural gas bloc. Project stalled due to sanctions; ONGC and Hinduja have had	Taken over by Indian firms (ONGC, Oil India Ltd., Hinduja, Petronet in 2007). Sonanagol	\$8 billion from Indian firms/\$1.5 billion	20 million tonnes of LNG annually

Date	Field/Project	Company(ies)/Status (If Known)	Value	Output/Goal
	difficulty financing the project. Sonangol reportedly exited project in February 2012 due to inability to finance its stake.  “Noose Tightens Around Iran Oil.” Washington Post, March 6, 2012.	(Angola) has 20% stake, and PDVSA (Venezuela) involved as well.	Sonangol/\$780 million PDVSA	by 2012
August 2009	<b>Abadan refinery</b>  Upgrade and expansion; building a new refinery at Hormuz on the Persian Gulf coast	Sinopec	up to \$6 billion if new refinery is built	
October 2009	<b>South Pars Gas Field—Phases 6-8, Gas Sweetening Plant</b>  CRS conversation with Embassy of S. Korea in Washington, D.C. July 2010  Contract signed but then abrogated by S. Korean firm	G and S Engineering and Construction (South Korea)	\$1.4 billion	
Nov. 2009	<b>South Pars: Phase 12—Part 2 and Part 3</b>  (“Italy, South Korea To Develop South Pars Phase 12.” Press TV (Iran), November 3, 2009, <a href="http://www.presstv.com/pop/Print?id=110308">http://www.presstv.com/pop/Print?id=110308</a> .)	Daelim (S. Korea)—Part 2; Tecnimont (Italy)—Part 3	\$4 billion (\$2 bn each part)	
Feb. 2010	<b>South Pars: Phase 11</b>  Drilling was to begin in March 2010, but drilling still delayed as of September 2011.  (“China Curbs Iran Energy Work,” Reuters, September 2, 2011)	CNPC (China)	\$4.7 billion	
2011	<b>Azar Gas Field</b>  Gazprom contract voided in late 2011 by Iran due to Gazprom’s unspecified failure to fulfill its commitments.	Gazprom (Russia)		
Dec. 2011	<b>Zagheh Oil Field</b>  Preliminary deal signed December 18, 2011 (Associated Press, December 18, 2011)	Tatneft (Russia)	\$1 billion	55,000 barrels per day within five years

**Sources:** As noted in table, as well as CRS conversations with officials of the State Department Bureau of Economics, and officials of embassies of the parent government of some of the listed companies (2005-2009). Some information comes: March 2010 GAO report, “Firms Reported in Open Sources as Having Commercial Activity in Iran’s Oil, Gas, and Petrochemical Sectors.” GAO-10-515R Iran’s Oil, Gas, and Petrochemical Sectors. <http://www.gao.gov/new.items/d10515r.pdf>. The GAO report lists 41 firms with “commercial activity in Iran’s energy sector; several of the listed agreements do not appear to constitute “investment,” as defined in ISA. That report was updated on August 3, 2011, in GAO-11-855R. <http://www.gao.gov/new.items/d11855r.pdf>.

**Note:** CRS has neither the mandate, the authority, nor the means to determine which of these projects, if any, might constitute a violation of the Iran Sanctions Act. CRS has no way to confirm the precise status of any of the announced investments, and some investments may have been resold to other firms or terms altered since agreement. In virtually all cases, such investments and contracts represent private agreements between Iran and its instruments and the investing firms, and firms are not necessarily required to confirm or publicly release the terms of their arrangements with Iran. Reported \$20 million+ investments in oil and gas fields, refinery upgrades,

and major project leadership are included in this table. Responsibility for a project to develop Iran's energy sector is part of ISA investment definition.

## Effect on Gasoline Availability and Importation

In March 2010, well before the enactment of CISADA on July 1, 2010, several gas suppliers to Iran, anticipating this legislation, announced that they had stopped or would stop supplying gasoline to Iran.<sup>58</sup> Others have ceased since the enactment of CISADA. Some observers say that gasoline deliveries to Iran fell from about 120,000 barrels per day before CISADA to about 30,000 barrels per day immediately thereafter,<sup>59</sup> although importation had recovered somewhat to about 80,000 barrels per day by September 2011. That suggests that Iran has coped by obtaining additional supplies from those still willing to do business with Iran.

The phaseout of gasoline subsidies discussed above has already reportedly begun to reduce demand for gasoline. Iran has also increased domestic production by converting at least two petrochemical plants to gasoline production, through a generally inferior process that initially produces benzene, leading to a large increase in air pollution in Tehran. Iran also says it has accelerated renovations and other improvements to existing gasoline refineries, allocating \$2.2 billion for that purpose. Even before the subsidy reduction, there had not been significant gasoline shortages or gasoline rationing.

Building new refining capacity appears to be Iran's long term effort to reduce its vulnerability to gasoline supply reductions. Iran's deputy oil minister said in July 2010 Iran would try to invest \$46 billion to upgrade its nine refineries and build seven new ones, a far larger amount than Iran had previously allocated for this purpose.

The main suppliers to Iran over the past few years, and the GAO-reported status of their sales to Iran are listed below (with the caveat that some reports say that partners or affiliates of these firms may still sell to Iran in cases where the corporate headquarters have announced a halt). As noted in a *New York Times* report of March 7, 2010,<sup>60</sup> and a Government Accountability Office study released September 3, 2010,<sup>61</sup> some firms that have supplied Iran have received U.S. credit guarantees or contracts:

- Vitol of Switzerland (notified GAO it stopped selling to Iran in early 2010);
- Trafigura of Switzerland (notified GAO it stopped selling to Iran in November 2009);
- Glencore of Switzerland (notified GAO it stopped selling in September 2009);
- Total of France (notified GAO it stopped sales to Iran in May 2010);
- Reliance Industries of India (notified GAO it stopped sales to Iran in May 2009). Reliance has also told press outlets on April 1, 2010, that it would not import Iranian crude oil in 2010;

<sup>58</sup> Information in this section derived from, Blas, Javier. "Traders Cut Iran Petrol Line." *Financial Times*, March 8, 2010.

<sup>59</sup> Information provided at Foundation for Defense of Democracies conference on Iran. December 9, 2010.

<sup>60</sup> Becker, Jo and Ron Nixon. "U.S. Enriches Companies Defying Its Policy on Iran." *New York Times*, March 7, 2010.

<sup>61</sup> GAO-10-967R. Exporters of Refined Petroleum Products to Iran. September 3, 2010.

- Petronas of Malaysia (said on April 15, 2010, it had stopped sales to Iran);<sup>62</sup>
- Lukoil of Russia (reportedly to have ended sales to Iran in April 2010,<sup>63</sup> although some reports continue that Lukoil affiliates are supplying Iran);
- Royal Dutch Shell of the Netherlands (notified GAO it stopped sales in October 2009);
- Kuwait's Independent Petroleum Group told U.S. officials it is no longer selling gasoline to Iran, as of September 2010;<sup>64</sup>
- Tupras of Turkey (according to the State Department on May 24, 2011);
- British Petroleum of United Kingdom, Shell, Q8, Total, and OMV are no longer selling aviation fuel to Iran Air, according to U.S. State Department officials on May 24, 2011;
- A UAE firm, Golden Crown Petroleum FZE, told the author in April 2011 that, as of June 29, 2010, it no longer leases vessels for the purpose of shipping petroleum products from or through Iran;
- Munich Re, Allianz, Hannover Re (Germany) were providing insurance and re-insurance for gasoline shipments to Iran. However, they reportedly have exited the market for insuring gasoline shipments for Iran;<sup>65</sup>
- Lloyd's (Britain). The major insurer had been the main company insuring Iranian gas (and other) shipping, but reportedly has ended that business as of July 2010. According to the State Department, key shipping associations have created clauses in their contracts that enable ship owners to refuse to deliver gasoline to Iran;
- The State Department reported on September 30, 2010, that Hong Kong company NYK Line Ltd. had ended shipping business with Iran (on any goods, not just gasoline);
- According to the State Department on May 24, 2011, Linde of Germany has said it had stopped supplying gas liquefaction technology to Iran, contributing to Iran's decision to suspend its LNG program.

### ***Firms Believed to Still Be Supplying Gasoline or Related Equipment***

- The firms sanctioned by the Administration on May 24, 2011 (discussed above): PCCI (Jersey/Iran); Royal Oyster Group (UAE); Speedy Ship (UAE/Iran); Tanker Pacific (Singapore); Ofer Brothers Group (Israel); Associated Shipbroking (Monaco); and Petroleos de Venezuela (Venezuela);
- Zhuhai Zhenrong, Unipet, and China Oil of China are said by GAO to still be selling to Iran and have not denied continuing sales to the GAO; (Zhuhai

<sup>62</sup> <http://www.ft.com/cms/s/0/009370f0-486e-11df-9a5d-00144feab49a.html>.

<sup>63</sup> [http://www.defenddemocracy.org/index.php?option=com\\_content&task=view&id=11788115&Itemid=105](http://www.defenddemocracy.org/index.php?option=com_content&task=view&id=11788115&Itemid=105).

<sup>64</sup> [http://www.defenddemocracy.org/index.php?option=com\\_content&task=view&id=11788115&Itemid=105](http://www.defenddemocracy.org/index.php?option=com_content&task=view&id=11788115&Itemid=105).

<sup>65</sup> [http://www.defenddemocracy.org/index.php?option=com\\_content&task=view&id=11788115&Itemid=105](http://www.defenddemocracy.org/index.php?option=com_content&task=view&id=11788115&Itemid=105).

- Zhenrong was sanctioned for this activity on January 12, 2012, as noted above, but there are no indications it has stopped selling the activity.)
- Emirates National Oil Company of UAE was reported by GAO to still be selling to Iran, and another UAE energy trader, FAL, was sanctioned on January 12, 2012, as discussed above.
  - Hin Leong Trading of Singapore was reported by GAO to still be selling gasoline to Iran and Kuo Oil of Singapore was sanctioned for selling gasoline to Iran on January 12, 2012, as discussed above;
  - Some refiners in Bahrain reportedly may still be selling gasoline to Iran.

## **Additional Sanctions: Possible Legislative, Administrative, and Multilateral Action**

As discussed above, the Administration and its international partners have now begun to sanction what Iran perceives is its vital interest—its oil exports—perceiving that the core goal of altering Iran’s nuclear decision making might be within reach. However, the Administration maintains that the implementation of the oil-related sanctions be calibrated so as not to cause a sudden spike in world oil prices or a backlash among key U.S. partners that would fracture international solidarity against Iran.

Some in the 112<sup>th</sup> Congress believe that the cumulative effect of U.S. and international sanctions—even after the EU embargo and other steps taken—remain insufficient to accomplish key U.S. policy goals toward Iran, and are advocating further steps. Still, the Administration prefers taking its own action—which it can calibrate to take into account the views of U.S. partner countries—rather than be bound by specific congressional requirements.

### **Major Bills Pending (H.R. 1905, H.R. 2105, S. 1048, S. 2101)**

Several major bills are pending. A House bill, H.R. 1905, the “Iran Threat Reduction Act of 2011” was marked up by the House Foreign Affairs Committee on November 2, 2011, along with H.R. 2105 (“The Iran, North Korea, and Syria Nonproliferation Reform and Modernization Act.”) The latter bill is highly similar to S. 1048, which is discussed below. Both House bills were passed by the House on December 14, 2011. H.R. 2105 passed 418-2, and H.R. 1905 passed 410-11. On February 2, 2012, the Senate Banking Committee ordered to be reported S. 2101, the Iran Sanctions, Accountability, and Human Rights Act, that combines elements of these earlier bills.

#### **H.R. 1905 (Iran Threat Reduction Act of 2011)**

As passed, H.R. 1905, contains language restating provisions of ISA and would:

- Add two sanctions to the available ISA menu: a ban on visas for the principal officers or controlling shareholders of sanctioned firms (and their subsidiaries, parents, and affiliates); and application of any other ISA sanction to the principal officers of a sanctioned firm.

- Require the President to impose at least six out of the expanded ISA menu of 11 available sanctions on any sanctioned firm.
- Make subject to ISA sanctions (majority of the menu) any firm that helps Iran issue sovereign debt.
- Subject U.S. persons to penalty if they conduct any business with the IRGC or its affiliated entities, or with any foreign firm that conducts such banned transactions with the IRGC or its affiliates.
- Ban commerce between Iran and subsidiaries of U.S. firms, in cases where the subsidiary is controlled or more than 50% owned by the parent firm.
- Ban previously permissible licensing of the sale to Iran of U.S. equipment to provide for the safe operation of Iran's civilian aircraft fleet.
- State that it is U.S. policy to support those in Iran seeking democracy, and require an Administration submission to Congress of a comprehensive strategy to help the Iranian people circumvent regime censorship and monitoring of their use of the Internet or other media.
- Require an Administration report listing all persons who are members of named Iranian government institutions, including high ranking IRGC officers—and ban visas for the named individuals.
- Ban contact between any U.S. official and any Iranian official who poses a threat to the United States or is affiliated with terrorist organizations.
- Contain elements similar to H.R. 740 on Securities and Exchange Commission (SEC) disclosures, discussed further below.
- Sanction Iran's Central Bank if the President determines that it helped Iran acquire WMD or facilitated transactions for the Revolutionary Guard or for entities sanctioned by the United States. (This sanction may have been mooted by enactment of P.L. 112-81, discussed further below.)
- Set as U.S. policy to press Iraq not to close Camp Ashraf, an encampment in Iraq which houses about 3,300 Iranian oppositionists, unless the residents can be resettled. The Camp Ashraf issue is discussed in detail in CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

### **H.R. 2105/S. 1048: The Iran, North Korea, and Syria Nonproliferation Reform and Modernization Act/Iran, North Korea, and Syria Sanctions Consolidation Act of 2011**

A Senate bill that focuses primarily on economic sanctions and proliferation sanctions is S. 1048, introduced May 23, 2011. H.R. 2105, which has provisions similar to S. 1048 was passed on December 14, 2011, as noted above. Among other provisions, S. 1048:

- States (§101) that it is the policy of the United States to prevent Iran from acquiring a nuclear weapons capability.
- Primarily targets affiliates of the IRGC for sanctions, and expands the list of sanctions (adding a ban on financing, aid, or investment) to be imposed on

- violating entities named under the Iran, North Korea, Syria, Non-Proliferation Act INKSNA), discussed earlier in this paper.
- Like H.R. 1905, subjects to ISA sanctions purchases of Iranian oil or gas in which the IRGC or its affiliates are involved.
  - Like H.R. 1905, mandates sanctions (§123, a ban on U.S. government contracts and ban on imports to the United States) on any entity determined to have conducted any commercial or financial transaction with the IRGC or its affiliates.
  - Sanctions foreign firms that participate in energy-related joint ventures with Iran outside Iranian territory.
  - Prohibits ships to put into port in the United States if the vessel entered a port in Iran, North Korea, or Syria any time 180 days prior.
  - Like H.R. 1905, denies visas to senior officials of Iran, but extends that to North Korea and Syria, and does not define specific government agencies in Iran whose members shall be named by the Administration.
  - Provides for sanctions against any person determined to be providing or acquiring militarily useful equipment to/from Iran, North Korea, or Syria.
  - Contains Iran human rights-related and SEC disclosure provisions similar to bills discussed below.

## **S. 2101**

On February 2, 2012, the Senate Banking Committee ordered to be reported S. 2101, a bill that combines elements of S. 1048, H.R. 1905, and H.R. 2105, called the “Iran Sanctions, Accountability, and Human Rights Act of 2012.” The main new elements, many of which were contained in amendments adopted at the Committee mark-up, include

- Barring foreign banks from the U.S. market if they process transactions with the Iran National Oil Company (NIOC) and the Iran National Tanker Company (NITC). (This is similar to a stand-alone bill, H.R. 3843, introduced on January 31, 2012.)
- Authorizing sanctions against the inter-bank communication system SWIFT (Society for Worldwide Interbank Financial Telecommunication) and its directors and significant shareholders if SWIFT continues to process transactions with Iranian banks.
- Expands the existing menu of ISA sanctions to principle corporate officers of a sanctioned firm, including making those officers ineligible for U.S. visas; or applying any other ISA sanction to those officers.
- Extending ISA sanctions to persons who participate in energy related joint ventures with Iran.
- Codifying Executive Order 13590 that sanctions providers of energy and petrochemical equipment to Iran, discussed above.
- Making U.S. parent companies liable if their foreign subsidiaries trade with Iran.

- Excluding from the United States Iranian students who study issues related to Iran's energy sector or nuclear program.
- Subjecting to ISA sanctions foreign persons who engage in transactions with the IRGC, its agents, or affiliates.
- Strengthening U.S. sanctions against Syria.

## **Other Trends in the 112<sup>th</sup> Congress**

Another apparent trend in the 112<sup>th</sup> Congress, based on introduced legislation, is to expand the sanctioning of Iranians named as human rights abusers. This builds on the human rights provisions of CISADA and the earlier Iran Freedom Support Act. In particular, the Iran Human Rights and Democracy Promotion Act of 2011 (S. 879 and H.R. 1714) would: make mandatory investigations of Iranian human rights abusers; sanction the sale to Iran of equipment that could be used to suppress demonstrations; reauthorize the Iran Freedom Support Act (see below); and create a "Special Representative" position at the Department of State to focus on highlighting Iran's human rights abuses and coordinate U.S. and international responses. As noted, portions of H.R. 1905 and S. 1048, which mainly focus on economic sanctions, also contain measures to further penalize Iranian human rights abusers or otherwise promote Internet freedom and democracy in Iran.

Other economic sanctions-related measures introduced in the 112<sup>th</sup> Congress include S. 366 and H.R. 740. These bills would require firms to declare in their required filings with the Securities and Exchange Commission whether that firm had undertaken activity that could violate ISA, CISADA, or executive orders (13224 or 13382) and regulations that bar dealings with designated Iranian entities.

## **Possible Additional Multilateral Sanctions**

Although there do not appear to be active discussions among the P5+1 on specific new United Nations actions to pressure Iran, there are a number of other possible sanctions that might receive consideration—either in a multilateral framework or for U.S. unilateral action targeting foreign firms and entities.

## **Comprehensive Oil Embargo**

Most experts believe that the most effective sanction would be a mandated, worldwide embargo on the purchase of Iranian crude oil. Despite the imposition of an embargo on Iranian oil purchases by the EU, there are no indications that a comprehensive worldwide embargo is to be proposed at the United Nations in the near term or that doing so would achieve consensus. A U.S. unilateral move to compel others to cease purchasing Iranian oil does not appear under consideration, although the sanctions against Iran's Central Bank approaches that position. Short of imposing a military quarantine on Iran, the United States does not have the ability, by itself, to prevent Iran from exporting oil.

In the 111<sup>th</sup> Congress, Representative Sherman introduced H.R. 6296, which, in Section 202, would amend ISA to make sanctionable "long term agreements" to buy oil from Iran—agreements that would involve large, up-front payments to Iran for purchases of oil over a long period of time. A provision of that bill would have extended ISA sanctionability to any energy



project conducted with NIOC, anywhere in the world. An amended version of the bill was introduced in the 112<sup>th</sup> Congress (H.R. 1655, introduced April 15, 2011). Other pending provisions of H.R. 1905 and S. 1048 would sanction oil related transactions with Iran if those transactions involve the IRGC.

### **Iran “Oil-Free Zone”**

As noted above, a voluntary ban on importing Iranian oil has been imposed by the EU. It is partly this step by the EU—and the U.S. sanctions against Iran’s Central Bank—that accounts for Iran’s threats in December 2011 and January 2012 to close the Strait of Hormuz if additional sanctions are imposed on Iran.

Prior to the EU move, there was discussion of forcing a similar result by closing the loophole in the U.S. trade ban under which Iranian crude oil, when mixed with other countries’ oils at foreign refineries in Europe and elsewhere, can be imported as refined product. That would likely cause EU and other major refiners to stop buying Iranian oil. The basis of the proposal, outlined by a think-tank called the Foundation of Defense of Democracies, is that restricting Iranian oil to use by only a limited number of refineries would force down the price received by Iran for its oil, although without raising the world price of oil significantly, if at all. Some argue this concept has been overtaken by events because of the EU oil embargo, while others say the step still has value in making sure the EU oil embargo on Iran is not easily lifted or modified.

### **Other Possibilities**

Other possible international steps would likely have less of an adverse economic effect on the countries imposing those sanctions on Iran but would, if enacted in a U.N. Security Council resolution, be binding on U.N. member states and presumably have greater effect than would such steps by the United States alone or in concert with its allies. However, aspects of many of these ideas are now so widely adopted by U.S. partner countries so as to possibly moot their inclusion in any new U.N. Resolution.

- *Mandating Reductions in Diplomatic Exchanges with Iran or Prohibiting Travel by Iranian Officials.* Some have suggested a worldwide ban on travel to Iranian civilian officials, such as those involved in suppressing democracy activists. Some have called on countries to reduce their diplomatic presence in Iran, or to expel some Iranian diplomats from Iranian embassies in their territories. However, the EU came one step closer to this option after the November 29 attack on the British Embassy in Tehran: Britain closed the Iranian embassy in Britain, and Norway, France, Germany, and the Netherlands withdrew their ambassadors. The EU, as noted, on December 1 named numerous Iranian persons as subject to a visa ban.
- *Barring Iran from International Sporting Events.* A further option is to limit sports or cultural exchanges with Iran, such as Iran’s participation in the World Cup soccer tournament. However, many experts oppose using sporting events to accomplish political goals.
- *Banning Passenger Flights to and from Iran.* Bans on flights to and from Libya were imposed on that country in response to the finding that its agents were responsible for the December 21, 1988, bombing of Pan Am 103 (now lifted).

There are no indications that a passenger aircraft flight ban is under consideration among the P5+1.

- *A Ban on Exports to Iran of Refined Oil Products and Energy Equipment and Services.* As noted, the EU sanctions formalized July 27, 2010, did not ban sales of gasoline but did ban the sale to Iran of equipment or services for Iran's energy sector (refineries as well as exploration and drilling). Another possibility would be to make such a general ban on sales of energy equipment or services universal in a new U.N. resolution. U.N. sanctions against Libya for the Pan Am 103 bombing banned the sale of energy equipment to Libya.
- *Limiting Lending to Iran by International Financial Institutions.* Resolution 1747 calls for restraint on but does not outright ban international lending to Iran. An option is to make a ban on such lending mandatory.
- *Banning Trade Financing or Official Insurance for Trade Financing.* Another option is to mandate a ban on official trade credit guarantees. This was not made mandatory by Resolution 1929, but several countries imposed this sanction (as far as most trade financing) subsequently. In discussions that led to Resolution 1929, a ban on investment in Iranian bonds reportedly was considered but deleted to attract China and Russia's support.
- *Banning Worldwide Investment in Iran's Energy Sector.* This option would represent an "internationalization" of the U.S. "Iran Sanctions Act," which is discussed in CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman. Such a step is authorized, not mandated, by Resolution 1929, and a growing number of countries have used that authority to impose these sanctions on Iran.
- *Restricting Operations of and Insurance for Iranian Shipping.* One option, reportedly long under consideration, has been to ban the provision of insurance, or reinsurance, for any shipping to Iran. A call for restraint is in Resolution 1929, but is not mandatory. The EU and other national measures announced subsequently did include this sanction (IRISL) to operate. (The United States has imposed sanctions on IRISL.)
- *Imposing a Worldwide Ban on Sales of Arms to Iran.* Resolution 1929 imposes a ban on sales of major weapons systems to Iran, but another option is to extend that ban to all lethal equipment.

**Table 5. Provisions and Implementation of CISADA (P.L. 111-195)**

**General Goals and Overview:** Expand the authorities of the Iran Sanctions Act (ISA, P.L. 104-172) to deter sales by foreign companies of gasoline to Iran. Adds new provisions sanctioning Iranians determined to be involved in human rights abuses and prohibiting transactions with foreign banks that conduct business with Revolutionary Guard and U.N.-sanctioned Iranian entities.

**Statement of U.S. Policy on Sanctioning Iran's Central Bank (Bank Markazi):**

Section 104 (see below) contains sense of Congress urging U.S. sanctions against Iranian Central Bank and would prohibit U.S. bank dealings with any financial institution that helps the Central Bank facilitate circumvention of U.N. resolutions on Iran.

**Extension of ISA to Sales of Gasoline:**

Section 102(a) contains provisions amending ISA to make sanctionable sales of gasoline and provision of services and equipment that Iran could use to manufacture its own gasoline or import gasoline. Such services include shipping or shipping insurance, and equipment (such as ships).

Sets dollar value “trigger” for such sales or services at \$1 million transaction, or \$5 million aggregate value (equipment or gasoline sales) in a one-year period.

Specifies that what is sanctionable includes helping Iran develop its liquefied natural gas (LNG) sector. Products whose sales are sanctionable include LNG tankers and products to build pipelines used to transport oil or LNG. Includes aviation fuel in definition of refined petroleum.

Formally reduces investment threshold to \$20 million to trigger sanctionability.

**Expansion of ISA Sanctions:**

Section 102(b) amends ISA to add *three sanctions to the existing menu* of six sanctions in ISA and requires the President to *impose 3 out of the 9* specified sanctions on entities determined to be violators.

(As it previously existed, ISA required the imposition of two out of six sanctions of the menu.)

**U.S. Government Enforcement Mechanism:**

Section 102(b) amends ISA by adding a provision similar to the House version: requiring, within 90 days of enactment (by October 1, 2010) new Federal Acquisition Regulations that mandate that firms to certify that they are not in violation of ISA as a condition of receiving a U.S. government contract, and providing for penalties for any falsification.

The Civilian Agency Acquisition Council issued the needed regulations (interim ruling) on September 29, 2010. Paperwork that firms must sign making that certification now included as part of their contract signature package.

**Additional Sanctions Against Suppliers of Nuclear, Missile, or Advanced Conventional Weapons Technology to Iran:**

Section 102(a)(2) amends ISA by adding a prohibition on licensing of nuclear materials, facilities, or technology to any country which is the parent country of an entity determined to be sanctioned under ISA for providing WMD technology to Iran.

Waiver is provided on vital national security interest grounds.

**Alterations to Waiver and Implementation Provisions:**

Section 102(g) amends ISA to make mandatory the beginning of an investigation of potentially sanctionable activity upon receipt of credible information of a potential violation. Makes mandatory a decision on sanctionability within 180 days of the beginning of such an investigation. (Previously, 180-day period was nonbinding.)

Mandatory investigation (which goes into effect July 1, 2011) of gasoline sales to Iran can be delayed for 180 days subject to a report—by June 1, 2011—certifying that there has been a substantial reduction in gasoline sales to Iran as a result of CISADA.

Section 102(c) sets 9(c) waiver standard as “necessary to the national interest”

Section 102(g) also alters existing 4(c) ISA waiver to delay sanctions on firms of countries that are “closely cooperating” with U.S. efforts against Iran’s WMD programs. (This is not an automatic “carve out” for cooperating countries.)

Section 102(g)(3) adds to ISA a “special rule” that no investigation of a potential violation need be started if a firm has ended or pledged to end its violating activity in/with Iran.

“Special rule” invoked twice, as discussed above.

**Required Reports:**

Various reporting requirements throughout (separate from those required to trigger or justify the various sanctions or waivers). These reporting requirements are:

- Amendment of Section 10 of ISA to include a report, within 90 days of enactment, and annual thereafter, on trade between Iran and the countries of the Group of 20 Finance Ministers and Central Bank Governors. (From House version)

- Section 110 of the law (not an amendment to ISA) requires a report within 90 days, and every 180 days hence, on investments made in Iran’s energy sector since January 1, 2006. The report must include significant joint ventures outside Iran in which Iranian entities are involved.

- The Section 110 report is to include an estimate of the value of ethanol imported by Iran during the reporting period.

Not clear whether Section 110 reports have been submitted to Congress.

- Section 111 (not an ISA amendment) requires a report within 90 days on the activities of export credit agencies of foreign countries in guaranteeing financing for trade with Iran).

Not clear whether report was submitted to Congress.

**Expansion of ISA Definitions:**

Does not include export credit agencies as a sanctionable entity under ISA (as amended). (However, a report is required on export credit agency activity, as discussed above.)

Does include LNG as petroleum resources.

As discussed in text, eliminates specific exemption of application of ISA sanctions energy sector equipment and services. This change largely mooted by November 2011 Executive Order, discussed above, which specifically sanctions sales to Iran of such equipment.

**Termination Provisions:**

The amendments to ISA in this law terminate if the President certifies that Iran has ceased WMD development, and has qualified for removal from the U.S. terrorism list.

However, the pre-existing version of ISA would continue to apply until the President also certifies that Iran poses no significant threat to U.S. national security, interests, or allies.

**ISA Sunset:**

Extends ISA sunset to December 31, 2016.

It was previously scheduled to “sunset” on December 31, 2011, as amended by the Iran Freedom Support Act (P.L. 109-293).

### **Additional Provisions That Are Not Amendments to ISA**

#### **Modification to U.S. Ban on Trade With and Investment in Iran:**

Bans all imports of Iranian origin from the United States, with the exception of informational material. Previously, modifications to the U.S. trade ban with Iran (Executive Order 12959 of May 6, 1995) that became effective in 2000 permit imports of Iranian luxury goods, such as carpets, caviar, nuts, and dried fruits.

- Reiterates/codifies prior provisions of U.S. trade ban related to U.S. exports to Iran, which prohibit exports to Iran of all goods except food and medical devices, informational material, articles used for humanitarian assistance to Iran, or goods needed to ensure safe operation of civilian aircraft.

Contains a new section that the existing U.S. ban (by executive order) on most exports to Iran not include the exportation of services for Internet communications.

Provision also states that the ban on most exports should not include goods or services needed to help non-governmental organizations support democracy in Iran.

Both provisions designed to support opposition protesters linked to Iran's "Green movement."

**Implementation:** In July 2010, Treasury Department Office of Foreign Assets Control issued a statement that, effective September 29, 2010, the general license for imports of Iranian luxury goods will be eliminated (no such imports allowed). This went into effect that day.

#### **Freezing of Assets/Travel Restriction on Revolutionary Guard and Related Entities and Persons:**

Mandates the President to freeze the assets of Iranian diplomats, IRGC, or other Iranian official personnel deemed a threat to U.S. national security under the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.). Provision requires freezing of assets of families and associates of persons so designated. Also calls for a ban on travel of IRGC and affiliated persons.

#### **Application of U.S. Trade Ban to Subsidiaries:**

No provision

#### **Mandatory Sanctions on Financial Institutions that Help Iran's Sanctioned Entities:**

Section 104(c) requires the Treasury Department to develop regulations (within 90 days of enactment) to prohibit and specify penalties for any U.S. financial transactions with any foreign financial institution that

- facilitates efforts by the Revolutionary Guard to acquire WMD or fund terrorism
- facilitate the activities of any person sanctioned under U.N. resolutions on Iran.
- facilitates the efforts by Iran's Central Bank to support the Guard's WMD acquisition efforts or support any U.N.-sanctioned entity

Section 104(d) requires penalties to be specified in regulations within 90 days.

Section 104(e) requires regulations (no date specified) to make this requirement retroactive to existing accounts, pending an audit by the U.S. banks involved.

**Implementation:** Treasury Department regulations implementing Section 104(c) and (d) provisions issued August 16, 2010. Regulations to implement 104(e) finalized in October 2011, based on proposals by the Treasury Department's Financial Crimes Enforcement Network (FINCEN).

#### **Sanctions on Iranian Human Rights Abusers:**

Section 105 requires, within 90 days, a report listing Iranian officials (or affiliates) determined responsible for or complicit in serious human rights abuses since the June 12, 2009, Iranian election. Those listed are ineligible for a U.S. visa, their U.S. property is to be blocked, and transactions with those listed are prohibited.

On September 29, 2010, President Obama issued Executive Order 13553 providing for these sanctions. See human rights section of this paper for Iranians sanctioned.

**Sanctioning Certain Information Technology Sales to Iran:**

Section 106 prohibits U.S. executive agencies from contracting with firms that export sensitive technology to Iran. “Sensitive technology” is defined as hardware, software, telecommunications equipment, or other technology that restricts the free flow of information in Iran or which monitor or restrict “speech” of the people of Iran.

The contracting restriction is to be imposed “pursuant to such regulations as the President may prescribe.”

The contracting regulations issued September 29, 2010, “partially” implement this requirement, with further regulations to be issued.

**Treasury Department Authorization to prevent misuse of the U.S. financial system by Iran or other countries:**

Section 109 authorized \$102 million for FY2011 and “sums as may be necessary” for FY2012 and 2013 to the Treasury Department Office of Terrorism and Financial Intelligence. Another \$100 million was authorized for FY2011 for the Financial Crimes Enforcement Network, and \$113 million for FY2011 for the Bureau of Industry and Security for the Department of Commerce

**Hezbollah:**

Section 113 contains a sense of Congress that the President impose the full range of sanctions under the International Emergency Economic Powers Act (50 U.S.C. 1701) on Hezbollah, and that the President renew international efforts to disarm Hezbollah in Lebanon (as called for by U.N. Security Council Resolutions 1559 and 1701).

**Divestment:**

Title II prevents criminal, civil, or administrative action against any investment firm or officer or adviser based on its decision to divest from securities that

- have investments or operations in Sudan described in the Sudan Accountability and Divestment Act of 2007
- or, engage in investments in Iran that would be considered sanctionable by the Senate bill.

**Prevention of Transshipment, Reexportation, or Diversion of Sensitive Items to Iran:**

Requires a report by the Director of National Intelligence that identifies all countries considered a concern to allow transshipment or diversion of WMD-related technology to Iran (technically: “items subject to the provision of the Export Administration Regulations”).

Section 303 requires the Secretary of Commerce to designate a country as a “Destination of Possible Diversion Concern” if such country is considered to have inadequate export controls or is unwilling to prevent the diversion of U.S. technology to Iran.

Designation would set up a strict licensing requirement for U.S. exports of sensitive technologies to that country.

List of countries that are believed to be allowing diversion of specified goods or technology to Iran to be named in a report provided within 180 days of enactment.

Implementation: Not clear that the required report has been submitted.

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**Table 6. Entities Sanctioned Under U.N. Resolutions and U.S. Laws and Executive Orders**

(Persons listed are identified by the positions they held when designated; some have since changed.)

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**Entities Named for Sanctions Under Resolution 1737**

Atomic Energy Organization of Iran (AEIO) Mesbah Energy Company (Arak supplier)  
 Kalaye Electric (Natanz supplier)  
 Pars Trash Company (centrifuge program) Farayand Technique (centrifuge program)  
 Defense Industries Organization (DIO)  
 7<sup>th</sup> of Tir (DIO subordinate)  
 Shahid Hemmat Industrial Group (SHIG)—missile program  
 Shahid Bagheri Industrial Group (SBIG)—missile program  
 Fajr Industrial Group (missile program)  
 Mohammad Qanadi, AEIO Vice President  
 Behman Asgarpour (Arak manager)  
 Ehsan Monajemi (Natanz construction manager)  
 Jafar Mohammadi (Adviser to AEIO)  
 Gen. Hosein Salimi (Commander, IRGC Air Force)  
 Dawood Agha Jani (Natanz official)  
 Ali Hajinia Leilabadi (director of Mesbah Energy)  
 Lt. Gen. Mohammad Mehdi Nejad Nouri (Malak Ashtar University of Defence Technology rector)  
 Bahmanyar Morteza Bahmanyar (AIO official)  
 Reza Gholi Esmali (AIO official)  
 Ahmad Vahid Dastjerdi (head of Aerospace Industries Org., AIO)  
 Maj. Gen. Yahya Rahim Safavi (Commander in Chief, IRGC)

**Entities/Persons Added by Resolution 1747**

Ammunition and Metallurgy Industries Group (controls 7<sup>th</sup> of Tir)  
 Parchin Chemical Industries (branch of DIO)  
 Karaj Nuclear Research Center  
 Novin Energy Company  
 Cruise Missile Industry Group  
 Sanam Industrial Group (subordinate to AIO)  
 Ya Mahdi Industries Group  
 Kavoshyar Company (subsidiary of AEIO)  
 Sho'a Aviation (produces IRGC light aircraft for asymmetric warfare)  
 Bank Sepah (funds AIO and subordinate entities)  
 Esfahan Nuclear Fuel Research and Production Center and Esfahan Nuclear Technology Center  
 Qods Aeronautics Industries (produces UAV's, para-gliders for IRGC asymmetric warfare)  
 Pars Aviation Services Company (maintains IRGC Air Force equipment)  
 Gen. Mohammad Baqr Zolqadr (IRGC officer serving as deputy Interior Minister)

Brig. Gen. Qasem Soleimani (Qods Force commander)  
Fereidoun Abbasi-Davani (senior defense scientist)  
Mohasen Fakrizadeh-Mahabai (defense scientist)  
Seyed Jaber Safdari (Natanz manager)  
Mohsen Hojati (head of Fajr Industrial Group)  
Ahmad Derakshandeh (head of Bank Sepah)  
Brig. Gen. Mohammad Reza Zahedi (IRGC ground forces commander)  
Amir Rahimi (head of Esfahan nuclear facilities)  
Mehrdada Akhlaghi Ketabachi (head of SBIG)  
Naser Maleki (head of SHIG)  
Brig. Gen. Morteza Reza'i (Deputy commander-in-chief, IRGC)  
Vice Admiral Ali Akbar Ahmadiyan (chief of IRGC Joint Staff)  
Brig. Gen. Mohammad Hejazi (Basij commander)

#### **Entities Added by Resolution 1803**

Thirteen Iranians named in Annex I to Resolution 1803; all reputedly involved in various aspects of nuclear program. Bans travel for five named Iranians.

Electro Sanam Co.  
Abzar Boresh Kaveh Co. (centrifuge production)  
Barzaganin Tejaral Tavanmad Saccal  
Jabber Ibn Hayan  
Khorasan Metallurgy Industries  
Niru Battery Manufacturing Co. (Makes batteries for Iranian military and missile systems)  
Ettihad Technical Group (AIO front co.)  
Industrial Factories of Precision  
Joza Industrial Co.  
Pshgam (Pioneer) Energy Industries  
Tamas Co. (involved in uranium enrichment)  
Safety Equipment Procurement (AIO front, involved in missiles)

#### **Entities Added by Resolution 1929**

Over 40 entities added; makes mandatory a previously nonbinding travel ban on most named Iranians of previous resolutions. Adds one individual banned for travel—AEIO head Javad Rahiqi

Amin Industrial Complex  
Armament Industries Group  
Defense Technology and Science Research Center (owned or controlled by Ministry of Defense).....  
Doostan International Company  
Farasakht Industries  
First East Export Bank, PLC (only bank added by Resolution 1929)  
Kaveh Cutting Tools Company  
M. Babaie Industries



Malek Ashtar University (subordinate of Defense Technology and Science Research Center, above)

Ministry of Defense Logistics Export (sells Iranian made arms to customers worldwide)

Mizan Machinery Manufacturing

Modern Industries Technique Company

Nuclear Research Center for Agriculture and Medicine (research component of the AEIO)

Pejman Industrial Services Corp.

Sabalan Company

Sahand Aluminum Parts Industrial Company

Shahid Karrazi Industries

Shahid Sattari Industries

Shahid Sayyade Shirazi Industries (acts on behalf of the DIO)

Special Industries Group (another subordinate of DIO)

Tiz Pars (cover name for SHIG)

Yazd Metallurgy Industries

The following are Revolutionary Guard affiliated firms, several are subsidiaries of Khatam ol-Anbiya, the main Guard construction affiliate:

Fater Institute

Garaghe Sazendegi Ghaem

Gorb Karbala

Gorb Nooh

Hara Company

Imensazan Consultant Engineers Institute

Khatam ol-Anbiya

Makin

Omran Sahel

Oriental Oil Kish

Rah Sahel

Rahab Engineering Institute

Sahel Consultant Engineers

Sepanir

Sepasad Engineering Company

The following are entities owned or controlled by Islamic Republic of Iran Shipping Lines (IRISL):

Irano Hind Shipping Company

IRISL Benelux

South Shipping Line Iran

**Entities Designated Under U.S. Executive Order 13382**  
**(many designations coincident with designations under U.N. resolutions)**

**Entity**

**Date Named**

Shahid Hemmat Industrial Group (Iran)

June 2005, September 2007

Shahid Bakeri Industrial Group (Iran)	June 2005, February 2009
Atomic Energy Organization of Iran	June 2005
Novin Energy Company (Iran)	January 2006
Mesbah Energy Company (Iran)	January 2006
Four Chinese entities: Beijing Alite Technologies, LIMMT Economic and Trading Company, China Great Wall Industry Corp, and China National Precision Machinery Import/Export Corp.	June 2006
Sanam Industrial Group (Iran)	July 2006
Ya Mahdi Industries Group (Iran)	July 2006
Bank Sepah (Iran)	January 2007
Defense Industries Organization (Iran)	March 2007
Pars Trash (Iran, nuclear program)	June 2007
Farayand Technique (Iran, nuclear program)	June 2007
Fajr Industries Group (Iran, missile program)	June 2007
Mizan Machine Manufacturing Group (Iran, missile prog.)	June 2007
Aerospace Industries Organization (AIO) (Iran)	September 2007
Korea Mining and Development Corp. (N. Korea)	September 2007
Islamic Revolutionary Guard Corps (IRGC)	October 21, 2007
Ministry of Defense and Armed Forces Logistics	October 21, 2007
Bank Melli (Iran's largest bank, widely used by Guard); Bank Melli Iran Zao (Moscow); Melli Bank PC (U.K.)	October 21, 2007
Bank Kargoshaee	October 21, 2007
Arian Bank (joint venture between Melli and Bank Saderat). Based in Afghanistan	October 21, 2007
Bank Mellat (provides banking services to Iran's nuclear sector); Mellat Bank SB CJSC (Armenia). Reportedly has \$1.4 billion in assets in UAE	October 21, 2007
Persia International Bank PLC (U.K.)	October 21, 2007
Khatam ol Anbiya Gharargah Sazandegi Nooh (main IRGC construction and contracting arm, with \$7 billion in oil, gas deals)	October 21, 2007
Oriental Oil Kish (Iranian oil exploration firm)	October 21, 2007
Ghorb Karbala; Ghorb Nooh (synonymous with Khatam ol Anbiya)	October 21, 2007
Sepasad Engineering Company (Guard construction affiliate)	October 21, 2007
Omran Sahel (Guard construction affiliate)	October 21, 2007
Sahel Consultant Engineering (Guard construction affiliate)	October 21, 2007
Hara Company	October 21, 2007
Gharargahe Sazandegi Ghaem	October 21, 2007
Bahmanyar Morteza Bahmanyar (AIO, Iran missile official, see above under Resolution 1737)	October 21, 2007
Ahmad Vahid Dastjerdi (AIO head, Iran missile program)	October 21, 2007
Reza Gholi Esmaeli (AIO, see under Resolution 1737)	October 21, 2007

Morteza Reza'i (deputy commander, IRGC) See also Resolution 1747	October 21, 2007
Mohammad Hejazi (Basij commander). Also, Resolution 1747	October 21, 2007
Ali Akbar Ahmadian (Chief of IRGC Joint Staff). Resolution 1747	October 21, 2007
Hosein Salimi (IRGC Air Force commander). Resolution 1737	October 21, 2007
Qasem Soleimani (Qods Force commander). Resolution 1747	October 21, 2007
Future Bank (Bahrain-based but allegedly controlled by Bank Melli)	March 12, 2008
Yahya Rahim Safavi (former IRGC Commander in Chief	July 8, 2008
Mohsen Fakrizadeh-Mahabadi (senior Defense Ministry scientist)	July 8, 2008
Dawood Agha-Jani (head of Natanz enrichment site)	July 8, 2008
Mohsen Hojati (head of Fajr Industries, involved in missile program)	July 8, 2008
Mehrdada Akhlaghi Ketabachi (heads Shahid Bakeri Industrial Group)	July 8, 2008
Naser Maliki (heads Shahid Hemmat Industrial Group)	July 8, 2008
Tamas Company (involved in uranium enrichment)	July 8, 2008
Shahid Sattari Industries (makes equipment for Shahid Bakeri)	July 8, 2008
7 <sup>th</sup> of Tir (involved in developing centrifuge technology)	July 8, 2008
Ammunition and Metallurgy Industries Group (partner of 7 <sup>th</sup> of Tir)	July 8, 2008
Parchin Chemical Industries (deals in chemicals used in ballistic missile programs)	July 8, 2008
Karaj Nuclear Research Center	August 12, 2008
Esfahan Nuclear Fuel Research and Production Center (NFRPC)	August 12, 2008
Jabber Ibn Hayyan (reports to Atomic Energy Org. of Iran, AEIO)	August 12, 2008
Safety Equipment Procurement Company	August 12, 2008
Joza Industrial Company (front company for Shahid Hemmat Industrial Group, SHIG)	August 12, 2008
Islamic Republic of Iran Shipping Lines (IRISL) and 18 affiliates, including Val Fajr 8; Kazar; Irinvestship; Shipping Computer Services; Iran o Misr Shipping; Iran o Hind; IRISL Marine Services; Iriatal Shipping; South Shipping; IRISL Multimodal; Oasis; IRISL Europe; IRISL Benelux; IRISL China; Asia Marine Network; CISCO Shipping; and IRISL Malta	September 10, 2008
Firms affiliated to the Ministry of Defense, including Armament Industries Group; Farasakht Industries; Iran Aircraft Manufacturing Industrial Co.; Iran Communications Industries; Iran Electronics Industries; and Shiraz Electronics Industries	September 17, 2008
Export Development Bank of Iran. Provides financial services to Iran's Ministry of Defense and Armed Forces Logistics	October 22, 2008
<i>Banco Internacional de Desarrollo, C.A.</i> , Venezuelan-based Iranian bank, sanctioned as an affiliate of the Export Development Bank.	
Assa Corporation (alleged front for Bank Melli involved in managing property in New York City on behalf of Iran)	December 17, 2008
11 Entities Tied to Bank Melli: Bank Melli Iran Investment (BMIIIC); Bank Melli Printing and Publishing; Melli Investment Holding; Mehr Cayman Ltd.; Cement Investment and Development; Mazandaran Cement Co.; Shomal Cement; Mazandaran Textile; Melli Agrochemical; First Persian Equity Fund; BMIIIC Intel. General	March 3, 2009

Trading

IRGC General Rostam Qasemi, head of Khatem ol-Anbiya Construction Headquarters (key corporate arm of the IRGC) February 10, 2010 (see also October 21, 2007)

Fater Engineering Institute (linked to Khatem ol-Anbiya) February 10, 2010

Imensazen Consultant Engineers Institute (linked to Khatem ol-Anbiya) February 10, 2010

Makin Institute (linked to Khatem ol-Anbiya) February 10, 2010

Rahab Institute (linked to Khatem on-Anbiya) February 10, 2010

Entities sanctioned on June 16, 2010

- Post Bank of Iran
- IRGC Air Force
- IRGC Missile Command
- Rah Sahel and Sepanir Oil and Gas Engineering (for ties to Khatem ol-Anbiya IRGC construction affiliate)
- Mohammad Ali Jafari—IRGC Commander-in-Chief since September 2007
- Mohammad Reza Naqdi—Head of the IRGC's Basij militia force that suppresses dissent (since October 2009)
- Ahmad Vahedi—Defense Minister
- Javedan Mehr Toos, Javad Karimi Sabet (procurement brokers or atomic energy managers)
- Naval Defense Missile Industry Group (controlled by the Aircraft Industries Org that manages Iran's missile programs)
- Five front companies for IRISL: Hafiz Darya Shipping Co.; Soroush Sarzamin Asatir Ship Management Co.; Safiran Payam Darya; and Hong Kong-based Seibow Limited and Seibow Logistics.

Also identified on June 16 were 27 vessels linked to IRISL and 71 new names of already designated IRISL ships.

Several Iranian entities were also designated as owned or controlled by Iran for purposes of the ban on U.S. trade with Iran.

Entities sanctioned on November 30, 2010

- Pearl Energy Company (formed by First East Export Bank, a subsidiary of Bank Mellat)
- Pearl Energy Services, SA
- Ali Afzali (high official of First East Export Bank)
- IRISL front companies: Ashtead Shipping, Byfleet Shipping, Cobham Shipping, Dorking Shipping, Effingham Shipping, Farnham Shipping, Gomshall Shipping, and Horsham Shipping (all located in the Isle of Man).
- IRISL and affiliate officials: Mohammad Hosein Dajmar, Gholamhossein Golpavar, Hassan Jalil Zadeh, and Mohammad Haji Pajand.

Entities sanctioned on December 21, 2010:

- Bonyad (foundation) Taavon Sepah, for providing services to the IRGC
- Ansar Bank (for providing financial services to the IRGC)
- Mehr Bank (same justification as above)
- Moallem Insurance Company (for providing marine insurance to IRISL, Islamic Republic of Iran Shipping Lines)

Bank of Industry and Mine (BIM) May 17, 2011

- Tidewater Middle East Company June 23, 2011

- Iran Air

- Mehr-e Eqtesad Iranian Investment Co.

- Bank Tejarat January 23, 2012

- Trade Capital Bank (Belarus-based but controlled by Tejarat)

**Entities Sanctioned Under Executive Order 13224 (Terrorism Entities)**

Qods Force	October 21, 2007
Bank Saderat (allegedly used to funnel Iranian money to Hezbollah, Hamas, PIJ, and other Iranian supported terrorist groups)	October 21, 2007
Al Qaeda Operatives in Iran: Saad bin Laden; Mustafa Hamid; Muhammad Rab'a al-Bahtiyti; Alis Saleh Husain	January 16, 2009
Qods Force senior officers: Hushang Allahdad, Hossein Musavi, Hasan Mortezaei, and Mohammad Reza Zahedi	August 3, 2010
Iranian Committee for the Reconstruction of Lebanon, and its director Hesam Khoshnevis, for supporting Lebanese Hizballah	August 3, 2010
Imam Khomeini Relief Committee Lebanon branch, and its director Ali Zuraik, for providing support to Hizballah	August 3, 2010
Razi Musavi, a Syrian based Iranian official allegedly providing support to Hizballah	August 3, 2010
Liner Transport Kish (for providing shipping services to transport weapons to Lebanese Hizballah)	December 21, 2010
For alleged plot against Saudi Ambassador to the U.S.:	October 11, 2011
Qasem Soleimani (Qods Force commander)	
Hamid Abdollahi (Qods force)	
Abdul Reza Shahlai (Qods Force)	
Ali Gholam Shakuri (Qods Force)	
Manssor Arbabsiar (alleged plotter)	
Mahan Air (for transportation services to Qods Force)	October 12, 2011
Ministry of Intelligence and Security of Iran (MOIS)	February 16, 2012

**Entities Sanctioned Under the Iran North Korea Syria Non-Proliferation Act or Executive Order 12938**

The designations are under the Iran, North Korea, Syria Non-Proliferation Act (INKSNA) unless specified. These designations expire after two years, unless re-designated

Baltic State Technical University and Glavkosmos, both of Russia	July 30, 1998 (E.O. 12938). Both removed in 2010—Baltic on January 29, 2010, and Glavkosmos on March 4, 2010
D. Mendeleyev University of Chemical Technology of Russia and Moscow Aviation Institute	January 8, 1999 (E.O. 12938). Both removed on May 21, 2010
Norinco (China). For alleged missile technology sale to Iran.	May 2003
Taiwan Foreign Trade General Corporation (Taiwan)	July 4, 2003
Tula Instrument Design Bureau (Russia). For alleged sales of laser-guided artillery shells to Iran.	September 17, 2003 (also designated under Executive Order 12938), removed May 21, 2010
13 entities sanctioned including companies from Russia, China, Belarus, Macedonia, North Korea, UAE, and Taiwan.	April 7, 2004
14 entities from China, North Korea, Belarus, India (two nuclear scientists, Dr. Surendar and Dr. Y.S.R. Prasad), Russia, Spain, and Ukraine.	September 29, 2004
14 entities, mostly from China, for alleged supplying of Iran's missile program. Many, such as North Korea's Changgwang Sinyong and China's Norinco and Great Wall Industry Corp, have been sanctioned several times previously. Newly sanctioned entities	December 2004 and January 2005

included North Korea's Paeksan Associated Corporation, and Taiwan's Ecoma Enterprise Co.

9 entities, including those from China (Norinco yet again), India (two chemical companies), and Austria. Sanctions against Dr. Surendar of India (see September 29, 2004) were ended, presumably because of information exonerating him.

December 26, 2005

7 entities. Two Indian chemical companies (Balaji Amines and Prachi Poly Products); two Russian firms (Rosobornexport and aircraft manufacturer Sukhoi); two North Korean entities (Korean Mining and Industrial Development, and Korea Pugang Trading); and one Cuban entity (Center for Genetic Engineering and Biotechnology).

August 4, 2006 (see below for Rosobornexport removal)

9 entities. Rosobornexport, Tula Design, and Komna Design Office of Machine Building, and Alexei Safonov (Russia); Zibo Chemical, China National Aerotechnology, and China National Electrical (China). Korean Mining and Industrial Development (North Korea) for WMD or advanced weapons sales to Iran (and Syria).

January 2007 (see below for Tula and Rosobornexport removal)

14 entities, including Lebanese Hezbollah. Some were penalized for transactions with Syria. Among the new entities sanctioned for assisting Iran were Shanghai Non-Ferrous Metals Pudong Development Trade Company (China); Iran's Defense Industries Organization; Sokkia Company (Singapore); Challenger Corporation (Malaysia); Target Airfreight (Malaysia); Aerospace Logistics Services (Mexico); and Arif Durrani (Pakistani national).

April 23, 2007

13 entities: China Xinshidai Co.; China Shipbuilding and Offshore International Corp.; Huazhong CNC (China); IRGC; Korea Mining Development Corp. (North Korea); Korea Taesong Trading Co. (NK); Yolin/Yullin Tech, Inc. (South Korea); Rosobornexport (Russia state arms export agency); Sudan Master Technology; Sudan Technical Center Co; Army Supply Bureau (Syria); R and M International FZCO (UAE); Venezuelan Military Industries Co. (CAVIM);

October 23, 2008. Rosobornexport removed May 21, 2010.

16 entities: Belarus: Belarusian Optical Mechanical Association; Beltech Export; China: Karl Lee; Dalian Sunny Industries; Dalian Zhongbang Chemical Industries Co.; Xian Junyun Electronic; Iran: Milad Jafari; DIO; IRISL; Qods Force; SAD Import-Export; SBIG; North Korea: Tangun Trading; Syria: Industrial Establishment of Defense; Scientific Studies and Research Center; Venezuela: CAVIM.

May 23, 2011

#### **Entities Designated as Threats to Iraqi Stability under Executive Order 13438**

Ahmad Forouzandeh. Commander of the Qods Force Ramazan Headquarters, accused of fomenting sectarian violence in Iraq and of organizing training in Iran for Iraqi Shiite militia fighters

January 9, 2008

Abu Mustafa al-Sheibani. Iran based leader of network that funnels Iranian arms to Shiite militias in Iraq.

January 9, 2008

Isma'il al-Lami (Abu Dura). Shiite militia leader, breakaway from Sadr Mahdi Army, alleged to have committed mass kidnappings and planned assassination attempts against Iraqi Sunni politicians

January 9, 2008

Mishan al-Jabburi. Financier of Sunni insurgents, owner of pro-insurgent Al-Zawra television, now banned

January 9, 2008

Al Zawra Television Station

January 9, 2008

Khata'ib Hezbollah (pro-Iranian Mahdi splinter group)

July 2, 2009

Abu Mahdi al-Muhandis

July 2, 2009

**Iranians Sanctioned Under September 29, 2010, Executive Order 13553 on Human Rights Abusers**

- |  |                                      |
|--|--------------------------------------|
| 1. IRGC Commander Mohammad Ali Jafari  | All sanctioned on September 29, 2010 |
| 2. Minister of Interior at time of June 2009 elections Sadeq Mahsouli  |                                      |
| 3. Minister of Intelligence at time of elections Qolam Hossein Mohseni-Ejei  |                                      |
| 4. Tehran Prosecutor General at time of elections Saeed Mortazavi  |                                      |
| 5. Minister of Intelligence Heydar Moslehi   |                                      |
| 6. Former Defense Minister Mostafa Mohammad Najjar   |                                      |
| 7. Deputy National Police Chief Ahmad Reza Radan   |                                      |
| 8. Basij (security militia) Commander at time of elections Hossein Taeb  |                                      |
| 9. Tehran Prosecutor General Abbas Dowlatabadi (appointed August 2009). Has indicted large numbers of Green movement protesters.         | Sanctioned on February 23, 2011      |
| 10. Basij forces commander (since October 2009) Mohammad Reza Naqdi (was head of Basij intelligence during post 2009 election crackdown) |                                      |
| 11. Islamic Revolutionary Guard Corps (IRGC)   | June 9, 2011.                        |
| 12. Basij Resistance Force   |                                      |
| 13. Law Enforcement Forces (LEF)   |                                      |
| 14. LEF Commander Ismail Ahmad Moghadam  |                                      |
| 15. Ministry of Intelligence and Security of Iran (MOIS)   | February 16, 2012.                   |

**Iranians Sanctioned Under Executive Order 13572 (April 29, 2011) for Repression of the Syrian People**

- |  |                   |
|--|-------------------|
| Revolutionary Guard—Qods Force                                   | April 29, 2011    |
| Qasem Soleimani (Qods Force Commander)                           | May 18, 2011      |
| Mohsen Chizari (Commander of Qods Force operations and training) | Same as above     |
| Ministry of Intelligence and Security of Iran (MOIS)             | February 16, 2012 |
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